

Zydu Lifesciences | BUY

US visibility remains strong

ZYDUSLIF reported a robust EBITDAM of 26.2% despite no gRevlimid contribution. The company's near-term launch pipeline remains attractive with a few niche launches, two transdermal launches, one REMS, gVascepa (3Q) and the Sitagliptin franchise. It plans to launch ~30 products annually with one exclusivity product in each of FY25/26/27. The LiqMeds acquisition is attractive as it provides access to specialty assets in UK/ US and is also EPS accretive. These initiatives will cumulatively offset base erosion (mid-single digit) and Asacol competition. ZYDUSLIF reaffirmed its double-digit growth guidance for the US in FY24. The management alluded to annual increase in gRevlimid share, which, along with new launches, will continue to drive US growth. India growth was weak due to delayed acute season but we expect it to grow in line with or higher than IPM growth. We believe US launches, domestic growth and margin sustenance places ZYDUSLIF on a sustainable growth path. We maintain BUY with a Sep'24 TP of INR 720 (including gRevlimid NPV of INR 30).

- No gRevlimid contribution in 2Q; outlook remains robust:** US revenue grew 9%YoY (11% miss) to USD 225mn driven by new launches and improvement in base business albeit growth was lower QoQ due to no gRevlimid contribution (~USD 70mn). Near-term launch prospects are encouraging with a few meaningful launches, one REMS product (in 4Q/ 1Q25), two transdermal products (limited competition with long-term visibility), gVascepa (3Q launch), Sitagliptin franchise and higher gRevlimid contribution in 4Q. This will offset base erosion and loss of share from Asacol HD competition (competition from 2H24). The company will launch the Sitagliptin franchise in FY25 and aspires to gain 8-10% share via retail channels and formularies. The management affirmed double-digit growth guidance for FY24 and will continue to grow thereafter. The company aims to launch ~30 products annually including one exclusivity product in each of FY25, FY26 and FY27. The specialty efforts continue with PBC filing expected CY25-end. The company has two under development and plans to acquire 2-3 assets via M&A. It aspires to achieve USD 100mn over the next 3-5 years from its specialty portfolio.
- LiqMeds – a strategic acquisition:** Zydus acquired LiqMeds Group for GBP 68mn. LiqMeds Group has capabilities and specialisation in development, manufacturing and supply of oral liquid products for global markets. The company has licensing agreements with Rosemont UK and three big specialty players in the US. The acquisition is EPS accretive. LiqMeds has 16 approved products in the UK, few 505(b)(2) opportunities in the US, mostly specialty products and a large pipeline which can be outlicensed. The management alluded to clear revenue visibility over the next 3 years.
- Domestic miss, EM & Europe report healthy growth:** Domestic formulations grew 5% YoY (5% miss) due to delay in acute season (Oct looks strong). Consumer Wellness franchise grew 3% YoY (6% miss) and pressure on gross margins eased on account of moderation in commodity prices and calibrated price increases. The company aims to grow in line or higher than the IPM. EM & EU formulations revenue grew 17% YoY with all major geographies delivering healthy growth. API revenue grew 26% YoY (9% beat).



Jainil Shah

jainil.shah@jmfl.com | Tel: (91 22) 66303155

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	720
Upside/(Downside)	20.5%
Previous Price Target	690
Change	4.3%

Key Data – ZYDUSLIF IN

Current Market Price	INR597
Market cap (bn)	INR604.6/US\$7.3
Free Float	20%
Shares in issue (mn)	1,023.7
Diluted share (mn)	1,012.2
3-mon avg daily val (mn)	INR746.0/US\$9.0
52-week range	669/390
Sensex/Nifty	64,942/19,407
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-1.1	15.5	32.4
Relative*	0.5	8.6	24.8

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	148,275	168,778	189,367	206,358	223,557
Sales Growth (%)	0.0	13.8	12.2	9.0	8.3
EBITDA	33,406	38,599	48,836	53,258	55,534
EBITDA Margin (%)	21.9	22.4	25.3	25.3	24.3
Adjusted Net Profit	21,288	25,691	32,902	36,923	39,651
Diluted EPS (INR)	20.8	25.4	32.5	36.5	39.2
Diluted EPS Growth (%)	-7.3	22.1	28.1	12.2	7.4
ROIC (%)	11.9	13.6	16.8	18.0	18.4
ROE (%)	14.2	14.9	17.5	17.0	16.0
P/E (x)	28.7	23.5	18.4	16.4	15.2
P/B (x)	3.6	3.4	3.0	2.6	2.3
EV/EBITDA (x)	19.1	16.4	12.5	11.0	10.0
Dividend Yield (%)	0.6	0.4	0.9	0.9	0.9

Source: Company data, JM Financial. Note: Valuations as of 07/Nov/2023

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- Key financials:** Zydu's Revenue/EBITDA/PAT of INR 43.7bn/ 11.5bn/ 8bn grew +6%/+41%/+55% YoY and were -7%/+4%/+13% vs. our estimates and -8%/in line/+4% vs. consensus estimates. EBITDA margin improved c.650bps YoY to 26.2% (JMFe: 23.3%). R&D expense of INR 3.2bn was 7.2% of sales (vs. 8% guidance for FY24). Capex for the quarter was INR 2.1bn. Net working capital increased to INR 55.8bn (vs. INR 63.9bn QoQ), Net Debt/EBITDA for the quarter is -0.34.

Exhibit 1. Valuation



Source: Bloomberg, JM Financial

Exhibit 2. 2QFY24 review

Zydu Lifesciences P&L - in INR mn	2QFY23A	2QFY24A	% YoY	2QFY24E	% Delta vs JMFe	2QFY24E (cons)	% Delta vs cons	1QFY24A	% QoQ
(in INR mn)									
Net Sales	39,426	42,586	8%	46,071	-8%			50,528	-16%
Other op. income	1,921	1,102	-43%	989	11%			868	27%
Total Income	41,347	43,688	6%	47,059	-7%	47,250	-8%	51,396	-15%
Expenses									
Raw material	15,944	14,738	-8%	16,125	-9%			16,744	-12%
Gross Profit	25,403	28,950		30,935				34,652	
Gross Profit (%)	61%	66%	483 bps	66%	53 bps			67%	-2%
Staff cost	6,717	7,529	12%	7,371	2%			7,304	3%
Mfg & Other expense	10,533	9,960	-5%	12,577	-21%			12,295	-19%
EBITDA (excl. other income)	8,153	11,461	41%	10,986	4%	11,410	0%	15,053	-24%
% EBITDA Margin	19.7%	26.2%	652 bps	23.3%	289 bps	24.1%	209 bps	29.3%	-305 bps
Other income	444	540		500				360	
Finance expenses	351	87		250				181	
Depreciation	1,818	1,842		1,830				1,798	
Exceptional items	0	0		0				-142	
Profit Before Tax (PBT)	6,428	10,072	57%	9,406	7%			13,292	-24%
Tax	1,370	2,264		2,069				2,161	
% Tax rate	21%	22%		22%				16%	
Minority interest	36	25		375				467	
JVs	148	234		150				215	
Reported PAT	5,170	8,017	55%	7,112				10,879	-26%
Adjusted PAT	5,170	8,017	55%	7,112	13%	7,700	4%	11,021	-27%
Reported EPS	5.1	7.9	55%	7.0				10.6	-25%
Adjusted EPS	5.1	7.9	55%	7.0	13%			10.8	-26%
% Cost Ratios									
Raw Materials	38.6	33.7	-483 bps	34.3	-53 bps			32.6	116 bps
Staff cost	16.2	17.2	99 bps	15.7	157 bps			14.2	302 bps
Mfg & Other expenses	25.5	22.8	-268 bps	26.7	-393 bps			23.9	-112 bps
Sales Break-up									
Formulations - Key Markets	29,732	31,989	8%	34,921	-8%			36,811	-13%
US	17,084	18,648	9%	20,882	-11%			24,541	-24%
India	12,648	13,341	5%	14,039	-5%			12,270	9%
Other Businesses and Alliances	9,695	10,597	9%	11,149	-5%			13,717	-23%
Europe & EM	3,849	4,504	17%	4,730	-5%			4,893	-8%
Consumer Wellness	4,227	4,352	3%	4,607	-6%			6,936	-37%
APIs	1,117	1,402	26%	1,285	9%			1,389	1%
Alliances	502	339	-32%	527	-36%			499	-32%

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	148,275	168,778	189,367	206,358	223,557	
Sales Growth	0.0%	13.8%	12.2%	9.0%	8.3%	
Other Operating Income	4,376	3,596	3,956	4,351	4,786	
Total Revenue	152,651	172,374	193,322	210,710	228,344	
Cost of Goods Sold/Op. Exp	55,452	63,101	65,710	72,225	79,586	
Personnel Cost	24,341	27,656	30,677	33,017	35,769	
Other Expenses	39,452	43,018	48,099	52,209	57,454	
EBITDA	33,406	38,599	48,836	53,258	55,534	
EBITDA Margin	21.9%	22.4%	25.3%	25.3%	24.3%	
EBITDA Growth	0.0%	15.5%	26.5%	9.1%	4.3%	
Depn. & Amort.	7,130	7,227	7,973	8,382	8,791	
EBIT	26,276	31,372	40,863	44,876	46,743	
Other Income	2,247	1,866	2,040	3,037	4,567	
Finance Cost	1,270	1,299	529	383	283	
PBT before Excep. & Forex	27,253	31,939	42,374	47,530	51,027	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	27,253	31,939	42,374	47,530	51,027	
Taxes	5,117	5,878	9,322	10,457	11,226	
Extraordinary Inc./Loss(-)	24,046	946	1,050	1,050	1,050	
Assoc. Profit/Min. Int.(-)	1,310	1,316	1,200	1,200	1,200	
Reported Net Profit	44,872	25,691	32,902	36,923	39,651	
Adjusted Net Profit	21,288	25,691	32,902	36,923	39,651	
Net Margin	13.9%	14.9%	17.0%	17.5%	17.4%	
Diluted Share Cap. (mn)	1,023.7	1,012.2	1,012.2	1,012.2	1,012.2	
Diluted EPS (INR)	20.8	25.4	32.5	36.5	39.2	
Diluted EPS Growth	-7.3%	22.1%	28.1%	12.2%	7.4%	
Total Dividend + Tax	3,722	2,671	5,567	5,567	5,567	
Dividend Per Share (INR)	3.6	2.6	5.5	5.5	5.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	27,253	31,939	42,374	47,530	51,027	
Depn. & Amort.	7,130	7,227	7,973	8,382	8,791	
Net Interest Exp. / Inc. (-)	-1,270	-1,299	-529	-383	-283	
Inc (-) / Dec in WCap.	-3,515	-2,358	-4,909	-5,226	-5,298	
Others	-1,811	-2,701	479	-1,208	-2,938	
Taxes Paid	-6,746	-5,920	-9,322	-10,457	-11,226	
Operating Cash Flow	21,041	26,888	36,067	38,638	40,073	
Capex	-12,026	-10,309	-7,500	-7,500	-7,500	
Free Cash Flow	9,015	16,579	28,567	31,138	32,573	
Inc (-) / Dec in Investments	-825	-104	0	0	0	
Others	24,395	22,125	466	1,863	3,393	
Investing Cash Flow	11,544	11,712	-7,034	-5,637	-4,107	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-3,722	-2,671	-5,567	-5,567	-5,567	
Inc / Dec (-) in Loans	-3,850	-31,439	-5,610	-2,000	-2,000	
Others	-1,111	-9,894	-403	-257	-157	
Financing Cash Flow	-8,683	-44,004	-11,580	-7,824	-7,724	
Inc / Dec (-) in Cash	23,902	-5,404	17,454	25,177	28,242	
Opening Cash Balance	10,872	11,069	5,731	23,185	48,362	
Closing Cash Balance	34,601	11,924	29,378	54,555	82,797	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	169,996	175,158	201,443	231,750	264,783	
Share Capital	1,024	1,012	1,012	1,012	1,012	
Reserves & Surplus	168,972	174,146	200,431	230,737	263,771	
Preference Share Capital	0	0	0	0	0	
Minority Interest	20,542	21,725	22,925	24,125	25,325	
Total Loans	42,048	11,751	6,141	4,141	2,141	
Def. Tax Liab. / Assets (-)	1,538	1,944	1,944	1,944	1,944	
Total - Equity & Liab.	234,124	210,578	232,453	261,960	294,193	
Net Fixed Assets	129,144	127,216	126,743	125,861	124,570	
Gross Fixed Assets	96,675	101,991	108,491	114,991	121,491	
Intangible Assets	80,302	76,030	77,030	78,030	79,030	
Less: Depn. & Amort.	54,443	62,107	70,080	78,462	87,253	
Capital WIP	6,610	11,302	11,302	11,302	11,302	
Investments	32,880	15,466	15,466	15,466	15,466	
Current Assets	115,930	114,882	143,441	176,659	213,057	
Inventories	37,194	34,133	47,104	51,340	55,637	
Sundry Debtors	33,403	44,168	42,303	46,107	49,966	
Cash & Bank Balances	11,069	5,731	23,185	48,362	76,604	
Loans & Advances	0	4	4	4	4	
Other Current Assets	34,264	30,846	30,846	30,846	30,846	
Current Liab. & Prov.	43,830	46,986	53,197	56,027	58,900	
Current Liabilities	25,241	24,680	30,518	32,968	35,452	
Provisions & Others	18,589	22,306	22,679	23,060	23,448	
Net Current Assets	72,100	67,896	90,244	120,632	154,157	
Total - Assets	234,124	210,578	232,453	261,959	294,193	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		13.9%	14.9%	17.0%	17.5%	17.4%
Asset Turnover (x)		0.7	0.8	0.9	0.8	0.8
Leverage Factor (x)		1.4	1.3	1.2	1.2	1.1
RoE		14.2%	14.9%	17.5%	17.0%	16.0%

Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		166.1	173.0	199.0	229.0	261.6
ROIC		11.9%	13.6%	16.8%	18.0%	18.4%
ROE		14.2%	14.9%	17.5%	17.0%	16.0%
Net Debt/Equity (x)		0.0	0.0	-0.1	-0.2	-0.3
P/E (x)		28.7	23.5	18.4	16.4	15.2
P/B (x)		3.6	3.4	3.0	2.6	2.3
EV/EBITDA (x)		19.1	16.4	12.5	11.0	10.0
EV/Sales (x)		4.2	3.7	3.2	2.8	2.4
Debtor days		80	94	80	80	80
Inventory days		89	72	89	89	89
Creditor days		65	58	68	68	68

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
10-Aug-22	Buy	430	
14-Nov-22	Buy	470	9.3
4-Feb-23	Buy	485	3.2
18-May-23	Buy	570	17.5
13-Aug-23	Buy	690	21.1

Recommendation History



APPENDIX I

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Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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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* REITs refers to Real Estate Investment Trusts.

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