

August 12, 2024

Q1FY25 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,305		1,130	
Sales (Rs. m)	2,28,302	2,43,309	2,18,127	2,31,845
% Chng.	4.7	4.9		
EBITDA (Rs. m)	71,038	70,810	60,654	61,918
% Chng.	17.1	14.4		
EPS (Rs.)	51.9	52.2	43.8	45.1
% Chng.	18.4	15.7		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	1,72,374	1,95,474	2,28,302	2,43,309
EBITDA (Rs. m)	35,755	53,033	71,038	70,810
Margin (%)	20.7	27.1	31.1	29.1
PAT (Rs. m)	19,649	38,365	52,182	52,518
EPS (Rs.)	19.4	38.1	51.9	52.2
Gr. (%)	(11.3)	96.4	36.0	0.6
DPS (Rs.)	4.0	4.5	5.0	5.0
Yield (%)	0.3	0.3	0.4	0.4
RoE (%)	11.4	20.5	23.6	19.6
RoCE (%)	14.3	23.1	27.7	23.0
EV/Sales (x)	7.7	6.7	5.6	5.1
EV/EBITDA (x)	37.0	24.6	18.0	17.6
PE (x)	67.0	34.1	25.1	24.9
P/BV (x)	7.5	6.6	5.4	4.5

Key Data ZYDU.BO | ZYDUSLIF IN

52-W High / Low	Rs.1,324 / Rs.568
Sensex / Nifty	79,706 / 24,368
Market Cap	Rs.1,309bn/ \$ 15,592m
Shares Outstanding	1,006m
3M Avg. Daily Value	Rs.1944.1m

Shareholding Pattern (%)

Promoter's	74.98
Foreign	5.59
Domestic Institution	12.56
Public & Others	6.87
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.6	61.6	96.6
Relative	12.5	45.1	62.8

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Strong quarter; sustainability of US sales is key

Quick Pointers:

- Guided for 100-150bps margin improvement and double-digit growth in the US
- Contribution from gRevlimid increased QoQ.

Zydu Lifesciences (ZYDUSLIF) Q1 EBITDA of Rs21.1bn (up 37% YoY) was 17% above our estimate aided by higher US sales. We believe the company's steady domestic franchise, strong balance sheet and potential new launches in the US will help negate pricing pressure and likely competition in some key products like gAsacol. Moreover, ZYDUSLIF is working on a robust pipeline of complex products, including injectables, transdermals, NCE, biosimilars and vaccines, which are expected to materialize over the next 2-3 years. Our FY25/26E EPS stands increased by 18.4%/15.7% for FY25E/26E as we factor in higher US sales and margins. We maintain our 'Accumulate' rating with revised TP of Rs1,305, valuing at 25x FY26E.

- Strong revenue growth across key segments:** ZYDUSLIF showed revenue growth of 20% YoY to Rs60.5bn, above our estimates. Domestic formulation delivered growth of 12% YoY vs our estimate of 8% growth. Consumer business also grew strong by 21% YoY. US sales came in at \$371mn (our est. of \$330mn) vs USD 304mn in Q4FY24. The QoQ growth was aided by new launches like Mirabegron and gRevlimid. Emerging markets were up by 9% YoY. API markets remained flat YoY.
- Improved GM's, EBITDA beat est:** EBITDA, including other operating income, came in at Rs21bn vs our estimate of Rs18bn. GMs increased sharply by 360bps QoQ to 74.4% aided by high-value niche launches in the US. However, other expenses were sharply up by 35% YoY and 11% QoQ at Rs16.3bn as it included one-off legal expenses to the tune of Rs1.3bn. R&D expenses stood at Rs3.9bn (6.5% of revenue), up 21% YoY. Reported PAT at Rs14.2bn vs our est of Rs12.2bn.
- Key concall takeaways: India formulation:** Key therapies cardiology, gynecology, derma, respiratory, anti-infectives, and super specialty therapies oncology and nephrology performed better than IPM. Retained its leadership position in nephrology. Chronic portfolio share increased to 41.3%. Focus remains on participating in vaccines public tenders in CY27. Launched 10 new products, including line extensions with 3 first in India launches. Consumer health business delivered double-digit growth driven by 17% volume growth in key brands like Nycil and Everyuth. **US business:** Healthy performance both YoY and QoQ was on account of volume expansion and new product launches in the base portfolio. Contribution from gRevlimid increased QoQ. Launched 7 new products, including 505(b)(2) product ZituvimetTM and Mirabegron ER tablets. Received 6 ANDA approvals (2 tentative) and filed for 5 ANDAs. Guided for 25 new launches in FY25. Focus remains on scaling up of specialty business in the US. **Other highlights:** Guided for 100-150bps margin improvement and healthy double-digit growth in the US for FY25. Saroglitazar PBC filling to happen next year with expected launch in FY27. Competition to kick in for gAsacol HD by end-of FY25. Submitted response to USFDA in terms of remediation of Jarod facility in Q1FY25. R&D spend to remain at 8% levels. Capex stood at Rs 3bn. Repaid entire debt during Q1FY25. Net cash at Rs19bn.

Exhibit 1: 1QFY25 Result Overview: Strong revenues, higher US sales aided beat

Y/e March (Rs mn)	Q1FY25	Q1FY24	YoY gr. (%)	Q4FY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Sales	62,075	51,396	20.8	55,338	12.2	195,474	173,459	12.7
Raw Material	15,861	16,744	(5.3)	16,115	(1.6)	62,282	63,101	(1.3)
<i>% of Net Sales</i>	<i>25.6</i>	<i>32.6</i>		<i>29.1</i>		<i>31.9</i>	<i>36.4</i>	
Personnel Cost	8,835	7,304	21.0	8,370	5.6	31,376	27,656	13.5
<i>% of Net Sales</i>	<i>14.2</i>	<i>14.2</i>		<i>15.1</i>	<i>(5.9)</i>	<i>16.1</i>	<i>15.9</i>	
Others	16,287	12,024	35.5	14,601	11.5	48,783	45,862	6.4
<i>% of Net Sales</i>	<i>26.2</i>	<i>23.4</i>		<i>26.4</i>		<i>25.0</i>	<i>26.4</i>	
Total Expenditure	40,983	36,072	13.6	39,086	4.9	142,441	136,619	4.3
EBITDA	21,092	15,324	37.6	16,252	29.8	53,033	36,840	44.0
<i>Margin (%)</i>	<i>34.0</i>	<i>29.8</i>		<i>29.4</i>		<i>27.1</i>	<i>21.2</i>	
Depreciation	2,153	1,798	19.7	2,053	4.9	7,641	7,227	5.7
EBIT	18,939	13,526	40.0	14,199	33.4	45,392	29,613	53.3
Other Income	380	89	327.0	1,617	(76.5)	3,651	3,625	0.7
Interest	322	181	77.9	346	(6.9)	812	1,299	(37.5)
PBT	18,997	13,434	41.4	15,470	22.8	48,231	31,939	51.0
Extra-Ord. Inc./Exps.	-	142	(100.0)	-	#DIV/0!	142	6,042	(97.6)
Total Taxes	4,361	2,161	101.8	3,212	35.8	9,775	5,878	66.3
<i>ETR (%)</i>	<i>23.0</i>	<i>16.1</i>		<i>20.8</i>		<i>20.3</i>	<i>18.4</i>	
Minority interest	(437)	(252)		(467)		51	(370)	
Reported PAT	14,199	10,879	30.5	11,791	20.4	38,365	19,649	95.3

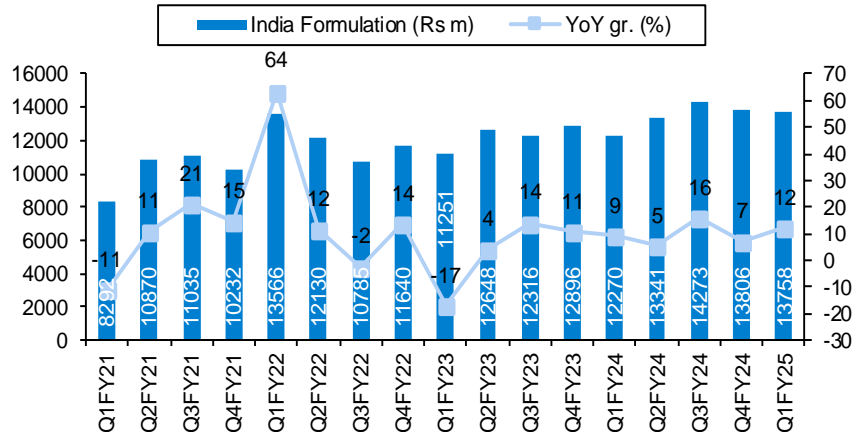
Source: Company, PL

Exhibit 2: Growth performance driven by increased US and India biz

Major Sources of Revenues	Q1FY25	Q1FY24	YoY gr. (%)	Q4FY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Domestic	22,124	19,206	15.2	21,561	2.6	76,707	71,449	7.4
<i>% of Net Sales</i>	<i>36.6</i>	<i>38.0</i>		<i>40.2</i>		<i>44.2</i>	<i>45.9</i>	
Formulation	13,758	12,270	12.1	13,806	(0.3)	53,690	49,111	9.3
<i>% of Net Sales</i>	<i>22.8</i>	<i>24.3</i>		<i>25.7</i>		<i>30.9</i>	<i>31.6</i>	
Consumer HC & Others	8,366	6,936	20.6	7,755	7.9	23,017	22,338	3.0
<i>% of Net Sales</i>	<i>13.8</i>	<i>13.7</i>		<i>14.5</i>		<i>13.2</i>	<i>14.4</i>	
Exports	38,341	31,322	22.4	32,103	19.4	97,014	84,096	15.4
<i>% of Net Sales</i>	<i>63.4</i>	<i>62.0</i>		<i>59.8</i>		<i>55.8</i>	<i>54.1</i>	
Formulation	36,238	29,434	23.1	30,195	20.0	89,651	77,011	16.4
<i>% of Net Sales</i>	<i>59.9</i>	<i>58.3</i>		<i>56.3</i>		<i>51.6</i>	<i>49.5</i>	
North America	30,929	24,541	26.0	25,235	22.6	86,851	74,451	16.7
EU & LatAM	5,309	4,893	8.5	4,960	7.0	2,800	2,560	9.4
API	1,415	1,389	1.9	1,436	(1.5)	5,658	5,473	3.4
JV	688	499	37.9	472	45.8	1,705	1,612	5.8

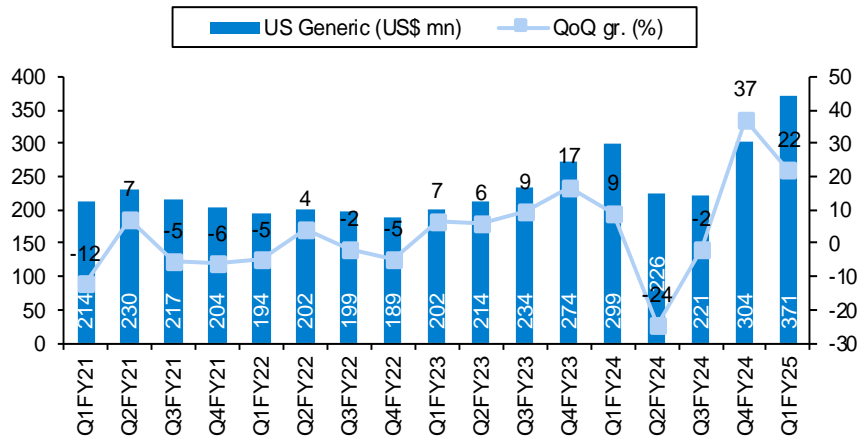
Source: Company, PL

Exhibit 3: Momentum continues supported by chronic portfolio



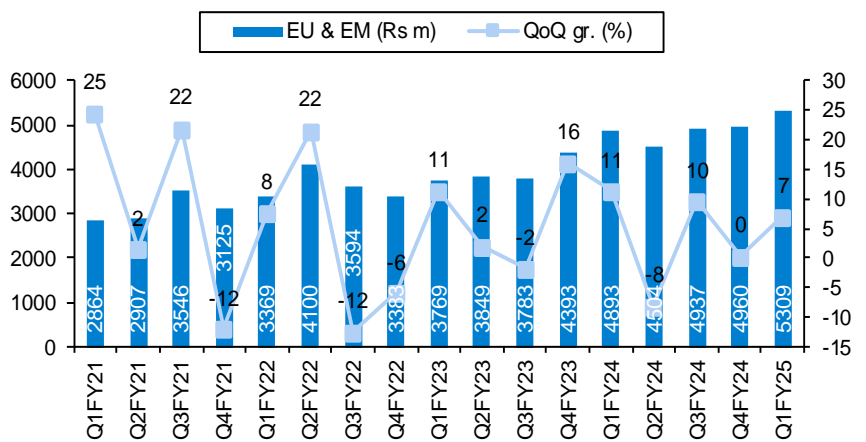
Source: Company, PL

Exhibit 4: New launches as well as base biz aided growth



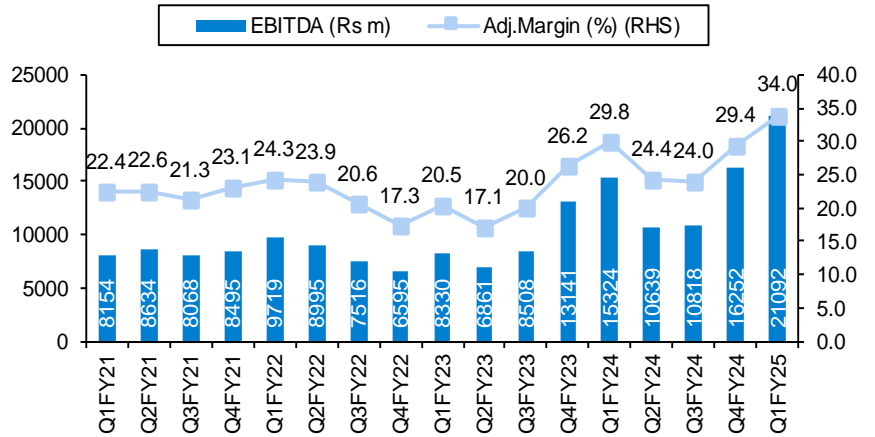
Source: Company, PL

Exhibit 5: Strong demand scenario across geographies



Source: Company, PL

Exhibit 6: Better product mix with higher gRevlimid & Mirabegron sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	1,72,374	1,95,474	2,28,302	2,43,309
YoY gr. (%)	14.1	13.4	16.8	6.6
Cost of Goods Sold	63,101	62,282	68,243	76,728
Gross Profit	1,09,273	1,33,192	1,60,059	1,66,581
Margin (%)	63.4	68.1	70.1	68.5
Employee Cost	27,656	31,376	36,082	39,691
Other Expenses	8,937	8,895	9,587	10,320
EBITDA	35,755	53,033	71,038	70,810
YoY gr. (%)	12.2	48.3	34.0	(0.3)
Margin (%)	20.7	27.1	31.1	29.1
Depreciation and Amortization	7,227	7,641	8,023	8,424
EBIT	28,528	45,392	63,015	62,385
Margin (%)	16.6	23.2	27.6	25.6
Net Interest	1,299	812	600	300
Other Income	4,710	3,651	2,750	3,500
Profit Before Tax	25,897	48,089	65,165	65,585
Margin (%)	15.0	24.6	28.5	27.0
Total Tax	5,878	9,775	13,033	13,117
Effective tax rate (%)	22.7	20.3	20.0	20.0
Profit after tax	20,019	38,314	52,132	52,468
Minority interest	1,316	1,133	1,150	1,150
Share Profit from Associate	946	1,184	1,200	1,200
Adjusted PAT	19,649	38,365	52,182	52,518
YoY gr. (%)	(12.4)	95.3	36.0	0.6
Margin (%)	11.4	19.6	22.9	21.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,649	38,365	52,182	52,518
YoY gr. (%)	(12.4)	95.3	36.0	0.6
Margin (%)	11.4	19.6	22.9	21.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,649	38,365	52,182	52,518
Equity Shares O/s (m)	1,012	1,006	1,006	1,006
EPS (Rs)	19.4	38.1	51.9	52.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	1,81,922	2,10,452	2,22,452	2,37,452
Tangibles	93,299	1,07,931	1,14,085	1,21,778
Intangibles	88,623	1,02,521	1,08,367	1,15,674
Acc: Dep / Amortization	66,008	73,649	81,672	90,096
Tangibles	45,897	51,209	56,788	62,646
Intangibles	20,111	22,440	24,884	27,451
Net fixed assets	1,15,914	1,36,803	1,40,780	1,47,356
Tangibles	47,403	56,722	57,297	59,133
Intangibles	68,511	80,081	83,483	88,223
Capital Work In Progress	11,302	11,115	11,115	11,115
Goodwill	-	-	-	-
Non-Current Investments	15,466	12,205	12,205	12,205
Net Deferred tax assets	10,680	11,977	11,977	11,977
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	34,133	34,419	43,186	46,104
Trade receivables	44,168	52,202	58,610	62,570
Cash & Bank Balance	5,731	11,051	37,449	67,132
Other Current Assets	-	-	-	-
Total Assets	2,44,940	2,76,366	3,23,773	3,68,954
Equity				
Equity Share Capital	1,012	1,006	1,006	1,006
Other Equity	1,74,146	1,97,289	2,43,406	2,89,860
Total Networkth	1,75,158	1,98,295	2,44,412	2,90,866
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	6,372	7,045	7,045	7,045
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	11,632	7,686	4,686	1,686
Trade payables	21,250	21,267	25,557	27,284
Other current liabilities	19,483	31,329	31,329	31,329
Total Equity & Liabilities	2,44,940	2,76,366	3,23,773	3,68,954

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	37,621	55,874	74,038	74,310
Add. Depreciation	7,227	7,641	8,023	8,424
Add. Interest	1,299	812	600	300
Less Financial Other Income	4,710	3,651	2,750	3,500
Add. Other	(10,981)	(8,553)	(8,873)	(8,724)
Op. profit before WC changes	35,166	55,774	73,788	74,310
Net Changes-WC	(2,358)	(8,711)	(10,886)	(5,151)
Direct tax	(5,920)	(12,858)	(13,033)	(13,117)
Net cash from Op. activities	26,888	34,205	49,870	56,041
Capital expenditures	(10,309)	(9,066)	(12,000)	(15,000)
Interest / Dividend Income	-	-	-	-
Others	11,822	(3,173)	-	-
Net Cash from Inv. activities	1,513	(12,239)	(12,000)	(15,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(27,944)	(4,274)	(4,857)	(5,043)
Dividend paid	(2,671)	(6,210)	(6,015)	(6,015)
Interest paid	(1,299)	(812)	(600)	(300)
Others	(1,825)	(5,350)	-	-
Net cash from Fin. activities	(33,739)	(16,646)	(11,472)	(11,358)
Net change in cash	(5,338)	5,320	26,398	29,683
Free Cash Flow	16,579	25,139	37,870	41,041

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	43,688	45,052	55,338	62,075
YoY gr. (%)	9.1	5.8	10.4	20.8
Raw Material Expenses	14,738	14,685	16,115	15,861
Gross Profit	28,950	30,367	39,223	46,214
Margin (%)	66.3	67.4	70.9	74.4
EBITDA	10,639	10,818	16,252	21,092
YoY gr. (%)	55.1	27.2	23.7	37.6
Margin (%)	24.4	24.0	29.4	34.0
Depreciation / Depletion	1,842	1,948	2,053	2,153
EBIT	8,797	8,870	14,199	18,939
Margin (%)	20.1	19.7	25.7	30.5
Net Interest	87	198	346	322
Other Income	540	377	1,564	632
Profit before Tax	9,250	9,049	15,417	19,249
Margin (%)	21.2	20.1	27.9	31.0
Total Tax	2,264	2,138	3,212	4,361
Effective tax rate (%)	24.5	23.6	20.8	22.7
Profit after Tax	6,986	6,911	12,205	14,888
Minority interest	(209)	(561)	467	437
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,195	7,472	11,738	14,451
YoY gr. (%)	85.5	44.4	228.5	29.6
Margin (%)	16.5	16.6	21.2	23.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,195	7,472	11,738	14,451
YoY gr. (%)	85.5	44.4	228.5	29.6
Margin (%)	16.5	16.6	21.2	23.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,195	7,472	11,738	14,451
Avg. Shares O/s (m)	1,024	1,025	1,025	1,025
EPS (Rs)	7.8	7.5	11.5	13.9

Source: Company Data, PL Research

Key Financial Metrics

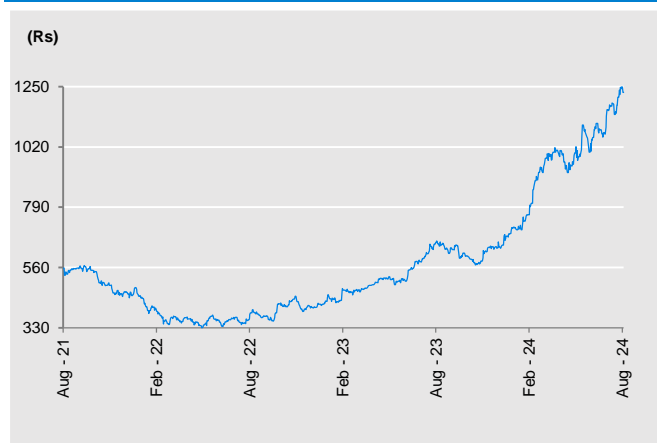
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	19.4	38.1	51.9	52.2
CEPS	26.6	45.7	59.8	60.6
BVPS	173.1	197.1	243.0	289.1
FCF	16.4	25.0	37.6	40.8
DPS	4.0	4.5	5.0	5.0
Return Ratio(%)				
RoCE	14.3	23.1	27.7	23.0
ROIC	11.9	17.1	22.0	20.7
RoE	11.4	20.5	23.6	19.6
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Working Capital (Days)	121	122	122	122
Valuation(x)				
PER	67.0	34.1	25.1	24.9
P/B	7.5	6.6	5.4	4.5
P/CEPS	49.0	28.4	21.7	21.5
EV/EBITDA	37.0	24.6	18.0	17.6
EV/Sales	7.7	6.7	5.6	5.1
Dividend Yield (%)	0.3	0.3	0.4	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
US Formulations	74,451	86,851	1,06,588	1,08,525
Domestic Formulations	49,110	53,690	59,596	66,151
Consumer Healthcare	22,338	23,017	26,239	29,388
Export Formulations (ex-US)	15,794	19,294	21,579	24,135
API	5,473	5,658	6,224	6,846
Income from JVs	1,612	1,705	1,876	2,063

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	Accumulate	1,130	1,162
2	20-May-24	Accumulate	1,130	1,104
3	08-Apr-24	Accumulate	855	1,007
4	11-Feb-24	Accumulate	855	804
5	08-Jan-24	Accumulate	670	714
6	08-Nov-23	Accumulate	670	599
7	07-Oct-23	Accumulate	650	604

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,335
2	Aster DM Healthcare	BUY	400	368
3	Aurobindo Pharma	Accumulate	1,300	1,304
4	Cipla	Accumulate	1,680	1,575
5	Divi's Laboratories	Accumulate	5,000	4,991
6	Dr. Reddy's Laboratories	Reduce	6,000	6,879
7	Eris Lifesciences	BUY	1,250	1,128
8	Fortis Healthcare	BUY	515	460
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	377
11	Indoco Remedies	Accumulate	320	322
12	Ipca Laboratories	Reduce	1,150	1,193
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,743
14	Jupiter Life Line Hospitals	BUY	1,360	1,330
15	Krishna Institute of Medical Sciences	BUY	2,200	2,135
16	Lupin	Hold	1,675	1,770
17	Max Healthcare Institute	BUY	975	916
18	Narayana Hrudayalaya	BUY	1,350	1,218
19	Sun Pharmaceutical Industries	BUY	1,885	1,715
20	Sunteck Realty	BUY	600	471
21	Torrent Pharmaceuticals	Accumulate	3,300	3,162
22	Zydus Lifesciences	Accumulate	1,130	1,162

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

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