Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Zydus Lifesciences Ltd

R&D advancements to drive growth

Stock Update

Company Update

Pharmaceuticals	Sharekhan code: ZYDUSLIFE

Reco/View: Buy	↔	CMP: **Rs. 1,066**	Price Target: **Rs. 1,268**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

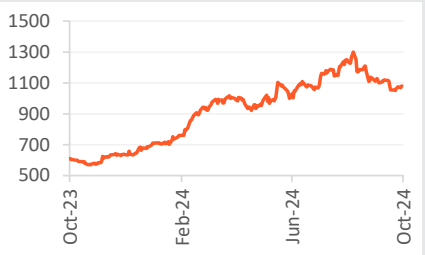
Company details

Market cap:	Rs. 98,497 cr
52-week high/low:	Rs. 1324/568
NSE volume: (No of shares)	19.66 lakh
BSE code:	532321
NSE code:	ZYDUSLIFE
Free float: (No of shares)	25.6 cr

Shareholding (%)

Promoters	75.0
FII	5.6
DII	12.6
Others	6.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.7	-9.7	-3.0	58.7
Relative to Sensex	-0.1	-0.5	-0.4	48.7

Sharekhan Research, Bloomberg

Summary

- Zydus Lifesciences Ltd has partnered with the Central Drug Research Institute (CDRI) to develop an oral treatment for osteoporosis related to chronic kidney disease (CKD) and postmenopausal conditions, focusing on small-molecule inhibitors of the protein sclerostin.
- The company has launched a Phase-1 trial for the ZY19489-Ferroquine combination, now actively recruiting 36 patients to assess safety, tolerability, and pharmacokinetics, with a projected completion date of February 1, 2025.
- Zydus has received a tentative approval from the USFDA to manufacture Enzalutamide Tablets for prostate cancer treatment, with production set to occur at its SEZ facility in Ahmedabad; these tablets generated annual sales of approximately $1.42 billion in the US as of July 2024.
- Clinical pipeline includes ZYIL-1, currently in Phase 1 and Phase 2 trials for Amyotrophic Lateral Sclerosis (ALS) and undergoing a Phase 2 trial for mild to moderately active ulcerative colitis in patients resistant or intolerant to oral aminosalicylates.

Zydus Lifesciences Ltd has partnered with the Central Drug Research Institute (CDRI) to develop an oral treatment for osteoporosis linked to chronic kidney disease (CKD) and post-menopausal conditions, focusing on small-molecule inhibitors of the protein sclerostin, which disrupts bone metabolism in advanced CKD patients. Collaboration will involve joint pre-clinical studies, with Zydus leading further drug development to address needs of over 10% of the global CKD-affected population. Additionally, Zydus has launched a Phase 1 trial for the ZY19489-Ferroquine combination, which is actively recruiting 36 patients to evaluate safety, tolerability, and pharmacokinetics, with an anticipated completion date of February 1, 2025. The company has also received tentative USFDA approval to manufacture Enzalutamide Tablets for treating castration-resistant and metastatic castration-sensitive prostate cancer, with production at its SEZ facility in Ahmedabad, and these tablets have generated approximately USD 1.42 billion in annual sales in the US as of July 2024. Furthermore, Zydus is advancing its clinical pipeline with ZYIL1, currently undergoing Phase 1 and Phase 2 trials for Amyotrophic Lateral Sclerosis (ALS) and a Phase 2 trial for mild to moderately active ulcerative colitis, targeting patients intolerant to oral aminosalicylates.

Partnership with Zydus: Zydus Lifesciences Ltd has teamed up with the CDRI to develop an oral treatment for osteoporosis associated with chronic kidney disease (CKD) and post-menopausal conditions. This collaboration focuses on identifying small-molecule inhibitors of sclerostin, a protein that disrupts bone metabolism, particularly in advanced CKD patients. CDRI's research has highlighted sclerostin as a key target for drug development, aiming to create therapies that reduce fracture risk while preserving renal function. This initiative seeks to meet the healthcare needs of over 10% of the global population suffering from CKD, underscoring the demand for safer osteoporosis treatments for this vulnerable group.

Phase 1 Trial for ZY19489-ferroquine combination launched: As of August 30, 2024, Zydus Lifesciences Limited has launched a Phase 1 trial for the ZY19489-Ferroquine combination, which is currently "actively recruiting" participants. This trial will be conducted at a single site with the goal of enrolling 36 patients to assess the safety, tolerability, and pharmacokinetics of the treatment. The primary objective is to develop a simplified treatment regimen for malaria, with an expected completion date for the primary phase set for February 1, 2025.

Tentative USFDA nod for enzalutamide tablets received: Zydus Lifesciences Limited has received tentative approval from the USFDA to produce Enzalutamide Tablets in 40 mg and 80 mg dosages for the treatment of castration-resistant and metastatic castration-sensitive prostate cancer. These tablets will be manufactured at Zydus' facility located in the SEZ, Ahmedabad. As of July 2024, Enzalutamide tablets have generated approximately USD 1.42 billion in annual sales in the United States, underscoring their substantial market potential.

Additional active programs in clinical pipeline: Zydus Lifesciences Limited is advancing its clinical pipeline, particularly with ZYIL1, which is currently undergoing Phase 1 and Phase 2 trials for Amyotrophic Lateral Sclerosis (ALS). These trials aim to evaluate the efficacy, safety, and pharmacokinetics of ZYIL1, with the most advanced trial expected to conclude by August 25, 2024. Additionally, ZYIL1 is in a Phase 2 trial for treating mild to moderately active ulcerative colitis in patients who are resistant to or intolerant of oral aminosalicylates.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,268: Zydus Lifesciences Ltd. is well-positioned for significant growth, supported by its strategic partnerships and active clinical programs. Collaboration with the CDRI to develop an oral treatment for osteoporosis associated with chronic kidney disease (CKD) targets a critical healthcare need, potentially addressing the concerns of over 10% of the global CKD population. Additionally, the company's Phase 1 trial for the ZY19489-Ferroquine combination showcases its commitment to innovating malaria treatments, with a focus on safety and tolerability. Zydus's recent tentative approval from the USFDA to manufacture Enzalutamide Tablets further underscores its market potential, particularly as these tablets generated approximately $1.42 billion in annual sales in the U.S. as of July 2024. Furthermore, Zydus is advancing its clinical pipeline with ZYIL1 for ALS and ulcerative colitis, enhancing its therapeutic portfolio. Collectively, these initiatives not only strengthen Zydus's position in the pharmaceutical market but also suggest a robust valuation trajectory driven by diverse revenue streams and innovative product development. is currently trading at 23x and 22x its estimated EPS for FY26 and FY27, respectively, with projected EPS of Rs. 45.56 and Rs. 48.75.

Key Risks

1) Price erosion in the US generics business could hurt performance. 2) Forex volatility could affect earnings

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	1724	1955	2228	2518	2820
Growth %	13%	13%	14%	13%	12%
EBITDA	378	538	624	692	761
Margin	22%	28%	28%	28%	27%
Adjusted PAT	189	384	415	458	490
EPS	18.67	38.14	41.29	45.56	48.75
PE	57x	28x	26x	23x	22x
P/BV	6x	5x	5x	4x	3x
EV/EBITDA	29x	20x	17x	16x	14x
ROE (%)	11%	19%	18%	17%	16%
ROCE (%)	15%	19%	19%	19%	18%

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view - Input cost easing with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global peers. A confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is seeing an easing of input costs – raw material, freight and power, which aids the sector in expanding margins. The sector is also witnessing an easing of price erosion followed by increasing contribution from product launches. We believe the sector is in a sweet spot, where it is experiencing healthy product mix and cost rationalization, which increases operational profit of companies. The sector is mainly a low-debt sector and increasing operational profit followed by experiencing advantage of a low tax rate due to its operations in the SEZ sector, hence overall, we stay positive on the sector.

■ Company outlook - Healthy growth prospects

Over the long term, both the US and India have a healthy growth outlook. The US business is on a strong footing, helped by a sturdy new product pipeline and ramp-up of recent product launches, which would be long-term growth drivers. However, in the near term, high price erosion would act as dampeners. Efforts to build a presence in the injectables space would also add to growth albeit over the medium to long term. The India business has a robust growth outlook, backed by pick-up in chronic as well as acute therapies and a few substantial high-value launches lined up. Over the long term, product launches such as Saroglitazar, gRevlimid, and Desidustat offer substantial growth potential. With a sharp reduction in debt, Zydus Lifesciences has strengthened its balance sheet. The management looks to keep an eye on debt reduction going ahead as well. This augurs well and would strengthen the company's financial muscle. Strong earnings prospects, healthy return ratios, and strengthening balance sheet are key positives for Cadila. In the near term, US market's growth is expected to moderate, while India and other geographies are likely to stage double-digit growth.

■ Valuation - Maintain Buy with a revised PT of Rs. 1,268

Zydus Lifesciences Ltd. is well-positioned for significant growth, supported by its strategic partnerships and active clinical programs. Collaboration with the CDRI to develop an oral treatment for osteoporosis associated with chronic kidney disease (CKD) targets a critical healthcare need, potentially addressing the concerns of over 10% of the global CKD population. Additionally, the company's Phase 1 trial for the ZY19489-Ferroquine combination showcases its commitment to innovating malaria treatments, with a focus on safety and tolerability. Zydus's recent tentative approval from the USFDA to manufacture Enzalutamide Tablets further underscores its market potential, particularly as these tablets generated approximately $1.42 billion in annual sales in the U.S. as of July 2024. Furthermore, Zydus is advancing its clinical pipeline with ZYIL1 for ALS and ulcerative colitis, enhancing its therapeutic portfolio. Collectively, these initiatives not only strengthen Zydus's position in the pharmaceutical market but also suggest a robust valuation trajectory driven by diverse revenue streams and innovative product development. is currently trading at 23x and 22x its estimated EPS for FY26 and FY27, respectively, with projected EPS of Rs. 45.56 and Rs. 48.75.

About company

Zydus Lifescience is one of the leading pharmaceutical companies in India. The company is present across the pharmaceutical value chain of research, development, manufacturing, marketing, and selling of finished dosage human formulations (generics, branded generics, and specialty formulations, including biosimilars and vaccines), active pharmaceutical ingredients (APIs), animal healthcare products, and consumer wellness products. The company has a global presence and sells its products in the US, India, Europe, and emerging markets, including countries in Latin America, Asia Pacific region, and Africa. The company is also engaged in research and development activities focused across the value chain of API process development, generics development for simple as well as differentiated dosage forms such as modified release oral solids, transdermal, topicals and nasals, biologics, vaccines, and new chemical entities (NCE).

Investment theme

Zydus Lifescience is favorably progressing in its efforts to build an alternative growth platform (NCE, biologics, and vaccines) that should start delivering over the medium to long term and reduce the company's dependence on limited competition assets in the US for its earnings. India business, including the consumer wellness segment, is likely to grow at a healthy pace, albeit over the medium to long term. Zydus Lifesciences is in a sweet spot, wherein both its geographies have an improved growth outlook. Easing pricing pressures, sturdy new product pipeline, and ramp-up in the recent product launches would be key growth drivers for the US business. The efforts to build up presence in the injectables space would also add to growth albeit over the medium to long term. India business is also showing signs of a pick-up in growth momentum, led by a solid presence in the chronic and sub-chronic segments and an improving outlook for the acute segment. Further, COVID-19 related opportunities would add to the company's growth momentum.

Key Risks

1) Regulatory compliance risk; 2) delay in product approvals; 3) currency risk; and 4) risk concentration in the US portfolio.

Additional Data

Key management personnel

Pankaj R. Patel	Chairman
Dr. Sharvil P. Patel	Managing Director
Mr. Ganesh Nayak	COO & Executive Director
Mr. Nitin Parekh	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	3.16
2	Kotak Mahindra Asset Management Co	1.51
3	ICICI Prudential Asset Management	1.16
4	Vanguard Group Inc/The	0.98
5	Blackrock Finance Inc	0.86
6	PPFAS Asset Management	0.77
7	Nippon Life India Asset Management	0.46
8	Axis Asset Management Co Ltd/India	0.45
9	Norges Bank	0.43
10	UTI Asset Management Co Ltd	0.31

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.