

Zydus Lifesciences Ltd

Q2FY25



Zydu Lifesciences Ltd.
Ongoing litigation and regulatory hurdles weigh on valuation

CMP INR 964*	Target INR 1,201	Potential Upside 24.6%	Market Cap (INR mn) INR 9,69,532	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights of Q2FY25:

- Zydu Lifesciences' revenue was largely in-line with our estimate (-2.7%) due to strong growth across geographical segments. However, Adj. PAT missed our estimate due to higher-than-expected depreciation and tax expenses, and lower-than-expected other income.
- We maintain our FY26E EPS estimates of INR 52.3 as we believe the company's focus on chronic and specialty therapies, and high-value product launches in key markets position it well for sustained growth. We expect the revenue to grow at 16.6% CAGR and Adj. PAT to grow at 16.1% CAGR for FY24-FY26E, respectively.
- We reduce the PE multiple to 23.0x (previously: 27.5x) due to litigation concerning Mirabegron, regulatory challenges such as a warning letter from the US FDA for its injectable facility, and competition in the US market for Asacol HD. Therefore, we arrive at a target price of INR 1,201 (previously: INR 1,439) and maintain our "BUY" rating on the stock.

MARKET DATA

Shares outs (mn)	1,006
Mkt Cap (INR mn)	9,69,532
52 Wk H/L (INR)	1,324/616
Volume Avg (3m K)	2,233
Face Value (INR)	1
Bloomberg Code	ZYDUSLIF IN

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	172,374	195,474	231,440	265,857	304,072
EBITDA	38,599	53,843	66,466	76,589	92,768
Adj. PAT	25,599	38,967	43,491	52,510	63,931
Adj. EPS (INR)	25.2	38.5	43.0	52.2	63.6
EBITDA Margin	22.4%	27.5%	28.7%	28.8%	30.5%
Adj. NPM	14.9%	19.9%	18.8%	19.8%	21.0%

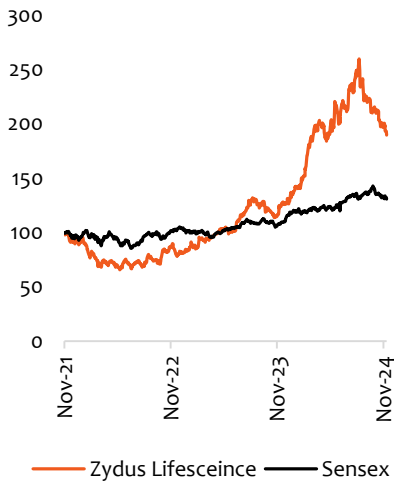
Source: Company, DevenChoksey Research

Strong volume and segment growth boost top-line

- For Q2FY25, the revenue increased 19.9% YoY (-15.6% QoQ) to INR 52,370 Mn. The YoY growth was driven by robust growth across business segments.
- US formulation (47.3% of revenue) grew by 29.6% YoY (-21.9% QoQ) to INR 24,168 Mn due to volume expansion and recent product launches.
- Indian formulation (28.5% of revenue) grew by 9.2% YoY (+5.9% QoQ) to INR 14,569 Mn driven by increased volumes and contributions from new products, especially in high-demand therapies like cardiology and oncology.
- International formulation (10.5% of revenue) grew by 19.6% YoY (+1.5% QoQ) to INR 5,389 Mn led by emerging markets and Europe which showed strong performance due to resilient demand, despite political and economic challenges in some countries.
- Consumer Wellness (9.5% of revenue) grew by 12.0% YoY (-41.7% QoQ) to INR 4,875 Mn led by strong volume growth of 8.4%. Both the personal care segment, food, and nutrition segment performed well, driving the overall performance of the business.

EBITDA improved with gross margin expansion despite rising operating costs

- EBITDA increased 33.1% YoY (-35.9% QoQ) to INR 14,160 Mn. EBITDA margin expanded 269 bps YoY (-855 bps QoQ) to 27.0% primarily due to improvement in gross margins.
- However, the company saw a rise in employee expenses due to increased investments in research and development (R&D) staff costs. Additionally, the company incurred higher expenses for distribution, marketing, and regulatory activities which impacted overall profitability.
- Adj. Net profit increased 20.5% YoY (-44.0% QoQ) to INR 8,658 Mn.

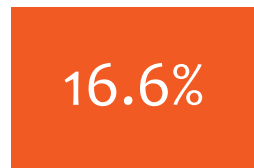
SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	77,691
NIFTY	23,559

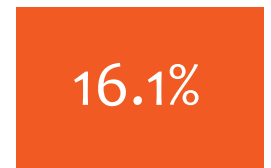
SHARE HOLDING PATTERN (%)

Particulars	Sept-24 (%)	Jun-24 (%)	Mar-24 (%)
Promoters	75.0	75.0	75.0
FIIIs	7.5	5.6	5.7
DIIIs	10.7	12.5	12.6
Others	6.9	6.9	6.7
Total	100.0	100.0	100.0

*Based on the today's closing
Note: All the market data is as of today's closing



Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

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Key Concall Highlights:

- The company provided guidance on **R&D expense**, expecting it to be around **8.0% of revenue** for FY25E which is **expected to maintain the same range for the near future**.
- The company launched **12 new products**, including line extensions, with **four first-in-India launches**.
- The company faces **competition in the US market**, particularly for products like **Asacol HD**, where a **competitor has launched a generic version**.
- Zydus Lifesciences faces **uncertainty** surrounding the **litigation concerning Mirabegron**. While the litigation is **not expected to conclude soon**, it represents a potential challenge to future revenue from this product.
- The company received a **warning letter from the US FDA for its injectable facility in Jarod**, requiring **corrective and preventive actions for remediation**. Regulatory challenges can lead to delays in product approvals and impact the company's growth trajectory.
- **International formulation business**, though performing well, **faces uncertainties** due to **ongoing political and economic instability in some countries**.
- Zydus Lifesciences launched **four new products**, filed **eight additional ANDAs**, and received **approvals for nine ANDAs**, including three tentative approvals during Q2FY25.
- The US FDA issued an **Establishment Inspection Report (EIR)** with a **Voluntary Action Indicated (VAI)** status to a **transdermal formulations facility in Ahmedabad SEZ**.
- The contribution of the **chronic portfolio** within India's branded formulations business has **increased steadily** over the past several years, **reaching 41.8% in Q2FY25**.
- This indicates a **shift towards higher-value treatments**, which are likely to **drive both revenue and profitability in the long term**.
- Zydus Lifesciences is actively building its portfolio in the **US by focusing on high-value products** that offer greater returns. This strategy includes **launching limited-competition products, leveraging 505(b)(2) pathways, and exploring in-licensing opportunities for niche, valuable products**.
- The company recently announced the **in-licensing of Gadolinium**, a product with **limited competition in the contrast media market**.

Valuation and View:

In Q2FY25, Zydus Lifesciences delivered strong YoY revenue growth, supported by robust performance across its key business segments and strategic product expansions. The US formulations business, making up nearly half of the revenue, was a major growth driver, with recent product launches and volume expansion. The Indian formulations segment also contributed significantly, seeing increased demand for high-value therapies, such as cardiology and oncology. Meanwhile, the international formulations segment continued its upward trend, particularly in emerging markets and Europe, where demand remained resilient despite some geopolitical and economic challenges.

We maintain our FY26E EPS estimates of INR 52.3 as we believe the company's focus on chronic and specialty therapies, and high-value product launches in key markets position it well for sustained growth. We expect the revenue to grow at 16.6% CAGR and Adj. PAT to grow at 16.1% CAGR for FY24-FY26E, respectively. Currently, the stock is trading at a PE multiple of 22.1x/18.2x, based on FY25E/FY26E EPS, respectively. We reduce the PE multiple to 23.0x (previously: 27.5x) due to litigation concerning Mirabegron, regulatory challenges such as a warning letter from the US FDA for its injectable facility, and competition in the US market for Asacol HD. Therefore, we arrive at a target price of INR 1,201 (previously: INR 1,439) and maintain our "BUY" rating on the stock which will have an upside potential of 24.6%.

Revenue Segments

Segment Result (INR mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	42,586	43,437	53,664	60,465	51,136
US Formulations	18,648	18,427	25,235	30,929	24,168
India Formulations	13,341	14,273	13,806	13,758	14,569
International formulation	4,504	4,937	4,960	5,309	5,389
Consumer Wellness	4,352	3,974	7,755	8,366	4,875
APIs	1,402	1,431	1,436	1,415	1,194

Segment Performance (% YoY)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	8.0%	4.4%	10.6%	19.7%	20.1%
US Formulations	9.2%	-4.3%	12.0%	26.0%	29.6%
India Formulations	5.5%	15.9%	7.1%	12.1%	9.2%
International formulation	36.2%	60.4%	12.9%	8.5%	19.6%
Consumer Wellness	3.0%	-3.5%	9.6%	20.6%	12.0%
APIs	25.5%	-23.9%	14.8%	1.9%	-14.8%

Source: Company, DevenChoksey Research

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Result Snapshot

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from Operations	52,370	62,075	43,688	-15.6%	19.9%
Total Expenditure	38,210	39,985	33,049	-4.4%	15.6%
Cost of Raw Materials	10,665	11,155	10,370	-4.4%	2.8%
Purchase of Stock	4,839	5,224	4,055	-7.4%	19.3%
Changes in Inventories	-790	-518	313	52.5%	NM
Employee Cost	8,792	8,835	7,529	-0.5%	16.8%
Other Expenses	14,704	15,289	10,782	-3.8%	36.4%
EBITDA	14,160	22,090	10,639	-35.9%	33.1%
EBITDA Margins (%)	27.0%	35.6%	24.4%	-855 bps	269 bps
Depreciation	2,336	2,153	1,842	8.5%	26.8%
EBIT	11,824	19,937	8,797	-40.7%	34.4%
Other Income	682	632	540	7.9%	26.3%
Interest Expense	251	322	87	-22.0%	188.5%
Net (gain) /loss on FX	0	0	0	NM	NM
Exceptional Items	-454	1,250	-822	NM	NM
PBT	12,709	18,997	10,072	-33.1%	26.2%
Tax	3,731	4,361	2,264	-14.4%	64.8%
Share of Associates	221	189	234	16.9%	-5.6%
Minority Interest	90	626	25	-85.6%	260.0%
Discontinued Operations	3	0	-10	NM	NM
PAT	9,112	14,199	8,007	-35.8%	13.8%
PAT Margin	17.4%	22.9%	18.3%	-547 bps	-93 bps
Adj PAT	8,658	15,449	7,185	-44.0%	20.5%
Adj PAT Margin	16.5%	24.9%	16.4%	-836 bps	9 bps
EPS	9.1	14.1	7.9	-35.8%	14.3%
Adj EPS	8.6	15.4	7.1	-44.0%	21.2%

Source: Company, DevenChoksey Research

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Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	172,374	195,474	231,440	265,857	304,072
COGS	63,101	62,282	63,446	70,961	75,992
Gross profit	109,273	133,192	167,994	194,896	228,080
Employee cost	27,656	31,376	38,686	46,525	53,213
Other expenses	43,018	47,973	62,842	71,781	82,099
EBITDA	38,599	53,843	66,466	76,589	92,768
Depreciation	7,227	7,641	8,310	9,076	10,536
EBIT	31,372	46,202	58,156	67,513	82,231
Finance Costs	1,299	812	1,075	965	965
Other Income	1,866	2,841	2,838	2,924	3,345
PBT	31,939	48,231	59,919	69,473	84,611
Tax	5,878	9,775	16,141	17,160	21,068
PAT	19,603	38,595	43,491	52,510	63,931
EPS (INR)	19.3	38.1	43.0	52.2	63.6
Adj. PAT	25,599	38,967	43,491	52,510	63,931
Adj. EPS (INR)	25.2	38.5	43.0	52.2	63.6

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	26,888	32,279	43,784	38,634	42,736
CFFI	8,044	(14,752)	(23,757)	(23,403)	(26,957)
CFFF	(44,004)	(18,104)	(9,773)	(13,467)	(15,751)
Net Inc/Dec in cash	(9,072)	(577)	10,254	1,764	28
Opening Cash	6,578	4,878	4,130	4,938	6,702
Adjustment	(1,700)	(748)	808	1,764	28
Closing Cash	4,878	4,130	4,938	6,702	6,729

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin	22.4%	27.5%	28.7%	28.8%	30.5%
Tax rate (%)	22.7%	20.3%	26.9%	24.7%	24.9%
Adj Net Profit Margin (%)	14.9%	19.9%	18.8%	19.8%	21.0%
RoE (%)	13.0%	17.6%	16.9%	17.5%	18.1%
RoCE (%)	15.0%	20.2%	22.0%	22.1%	23.1%
Current Ratio (x)	1.8	2.2	2.4	2.9	3.7
P/E(x)	37.7	24.7	22.1	18.2	14.9

Source: Company, DevenChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	1,012	1,006	1,006	1,006	1,006
Other Equity	195,871	220,010	256,085	299,225	351,502
Total Equity	196,883	221,016	257,091	300,231	352,508
Non-Current Liabilities					
Other financial liabilities	712	10,793	10,793	10,793	10,793
Provisions	2,718	3,097	3,097	3,097	3,097
Other Non-Current Liabilities	1,944	4,483	4,483	4,483	4,483
Total Non-Current Liabilities	5,374	18,373	18,373	18,373	18,373
Current Liabilities					
Borrowings	11,632	7,686	7,686	5,686	3,686
Trade Paybles	21,250	21,267	24,460	25,274	22,902
Other current liabilities	22,425	24,466	24,276	26,243	27,560
Total Current Liabilities	55,307	53,419	56,421	57,203	54,147
Total Liabilities	60,681	71,792	74,794	75,576	72,520
Non-Current Assets					
Property Plants and Equipments	56,965	58,033	67,590	78,567	91,123
Capital work-in-progress	11,302	11,115	11,115	11,115	11,115
Other Non-current assets	89,133	108,646	115,890	119,358	123,153
Total Non-Current Assets	157,400	177,794	194,595	209,040	225,391
Current Assets					
Inventories	34,133	34,419	45,194	50,548	58,295
Trade Receivables	44,168	52,202	57,067	76,479	98,303
Cash and Bank	5,731	11,051	11,859	13,623	13,650
Other current assets	16,132	17,342	23,170	26,117	29,389
Total Current Assets	100,164	115,014	137,290	166,766	199,637
Total Assets	257,564	292,808	331,885	375,807	425,028

Zydus Lifesciences Ltd.

Zydus Lifesciences Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
13-Nov-24	964	1,201	BUY
21-Aug-24	1,193	1,439	BUY
21-May-24	1,104	1,186	ACCUMULATE
14-Feb-24	858	913	ACCUMULATE
25-Aug-23	640	725	ACCUMULATE
20-May-23	497	623	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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