



India

ADD (no change)

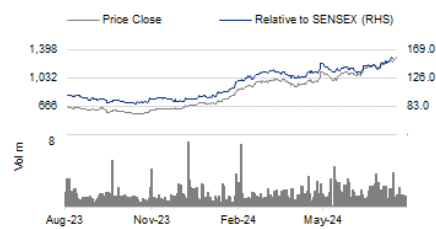
Consensus ratings*: Buy 15 Hold 11 Sell 6

Current price:	Rs1,301
Target price: ▲	Rs1,434
Previous target:	Rs1,220
Up/downside:	10.2%
InCred Research / Consensus:	32.8%

Reuters:	
Bloomberg:	ZYDUSLIF IN
Market cap:	US\$18,027m
	Rs1,309,010m
Average daily turnover:	US\$23.1m
	Rs1674.1m
Current shares o/s:	1,012.2m
Free float:	25.0%
*Source: Bloomberg	

Key changes in this note

- Raise FY25F/26F EPS by 4%/9%.
- Raise the target price to Rs1,434, from Rs1,220 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.6	34.4	96.6
Relative (%)	12.8	22.5	61.2

Major shareholders	% held
Promoters	75.0
LIC	5.3
Kotak Mahindra MF	2.4

Research Analyst(s)



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Zydus Lifesciences

Strong 1Q and FY25F

- Posts strong 1Q results, with a 4%/13% EBITDA beat on our/consensus estimates. Margin stood at 33.6%, despite absorbing a Rs1.25bn one-off hit.
- Management upped margin guidance to 28.5-29% for FY25F (27.5% earlier). Competition seen staggered in gMirabegron post marketing exclusivity.
- FY25F/26F EPS raised by 4%/9%, respectively. Retain ADD rating on the stock with a higher target price of Rs1,434.

Robust start to FY25F

Zydus Lifesciences posted a robust 1QFY25 performance, with an all-time high margin of 33.6%. Revenue/EBITDA were 3%/5% above our estimates and 6%/13% above Bloomberg or BB consensus estimates, respectively. Revenue grew in double digits across segments, except in the case of emerging markets (+9% YoY). Gross margin stood at 74.4% (+350bp QoQ) on a high base of 70.9% in 4QFY24, boosted by the gMirabegron launch, higher contribution from gRevlimid and QoQ improvement in the wellness business (+100bp). EBITDA includes a one-time spending of Rs1.25bn relating to project consultancy and other costs. During 1QFY25, the company paid its entire debt, and it is now debt-free.

How plausible is FY25F guidance?

Zydus Lifesciences gave guidance of high-teen revenue growth and 28.5-29% margin (assuming competition in gAsacol HD). While a double-digit growth in ex-US businesses is a plausible number, we believe the street is apprehensive about double-digit growth in the US, especially as FY24 itself was a very strong year. We, however, believe the math is doable, with gMirabegron launch (sole marketing exclusivity in one strength and shared exclusivity with Lupin in another) and higher revenue share from gRevlimid. We build in a 15% YoY growth in FY25F revenue with an upside possibility if competition in gAsacol HD is further delayed.

Other highlights

R&D spending to be around 8% of sales. b) Expect 25 product launches in the US in FY25F. c) gIngrezza is unlikely to be a near-term opportunity. d) gVascepa scale-up will take a few more quarters. e) Saroglitazar – patient recruitment completed, data read out in 2QFY26F. Possible commercialization by FY27F. f) Transdermals will take a couple of years to fully scale up. g) Injectables also will be a medium-term growth driver, as most drug device products are a few years out.

Retain ADD rating with a higher target price of Rs1,434

We upgrade FY25F/26F EPS by 4%/9%, respectively, and raise the target price to Rs1,434, from Rs1,220 earlier. Zydus Lifesciences is one of the best plays on the US generics story, with a strong product pipeline along with solid execution. Retain ADD rating on the stock. Slower growth in the US & lower-than expected margins are the downside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	152,652	175,218	196,025	226,034	246,801
Operating EBITDA (Rsm)	33,407	38,599	53,843	65,140	71,077
Net Profit (Rsm)	44,873	19,649	38,365	46,669	51,535
Core EPS (Rs)	23.4	24.0	38.0	46.1	50.9
Core EPS Growth	10.9%	2.8%	58.2%	21.3%	10.4%
FD Core P/E (x)	55.65	54.14	34.22	28.22	25.55
DPS (Rs)	6.0	6.0	7.0	7.0	7.0
Dividend Yield	0.46%	0.46%	0.54%	0.54%	0.54%
EV/EBITDA (x)	39.98	34.43	24.59	20.10	17.97
P/FCFE (x)	21.90	30.02	23.63	26.31	15.56
Net Gearing	4.0%	(0.1%)	(2.7%)	(8.0%)	(17.4%)
P/BV (x)	7.75	7.52	6.64	5.54	4.67
ROE	15.8%	14.1%	20.6%	21.4%	19.8%
% Change In Core EPS Estimates				4.24%	9.15%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	40,727	41,395	43,623	49,521	51,125	44,510	45,052	55,338	62,075	21%	12%
Consumption of raw materials	15,093	15,944	15,104	16,960	16,744	14,738	14,685	16,115	15,861	-5%	-2%
as % of sales	37.1%	38.5%	34.6%	34.2%	32.8%	33.1%	32.6%	29.1%	25.6%		
Employee costs	6,810	6,717	6,890	7,239	7,304	7,529	8,173	8,370	8,835	21%	6%
as % of sales	16.7%	16.2%	15.8%	14.6%	14.3%	16.9%	18.1%	15.1%	14.2%		
R&D costs	2,842	2,534	3,435	3,541	3,239	3,225	3,146	3,516	3,925	21%	12%
as % of sales	7.0%	6.1%	7.9%	7.2%	6.3%	7.2%	7.0%	6.4%	6.3%		
Other expenditure	7764	7999	8634	9225	8785	7557	11628	14636	16218	85%	11%
as % of sales	19.1%	19.3%	19.8%	18.6%	17.2%	17.0%	25.8%	26.4%	26.1%		
EBITDA	8,218	8,201	9,560	12,556	15,053	11,461	11,024	16,305	20,840	38%	28%
Margin (%)	20.2%	19.8%	21.9%	25.4%	29.4%	25.7%	24.5%	29.5%	33.6%		
Depreciation	1,807	1,818	1,816	1,786	1,798	1,842	1,948	2,053	2,153		
Other income	659	444	385	378	360	540	377	1,564	632		
Interest	343	351	328	277	181	87	198	346	322		
PBT	6,727	6,476	7,801	10,871	13,434	10,072	9,255	15,470	18,997	41%	23%
Total tax	1,184	1,363	1,952	1,372	2,161	2,264	2,138	3,212	4,361		
Tax rate (%)	17.6%	21.0%	25.0%	12.6%	16.1%	22.5%	23.1%	20.8%	23.0%		
PAT before MI	5,543	5,113	5,849	9,499	11,273	7,808	7,117	12,258	14,636	30%	19%
Minority interest (MI)	-360	112	376	-498	-252	209	561	-467	-437		
Adj. PAT before extraordinary items	5,183	5,225	6,225	9,001	11,021	8,017	7,678	11,791	14,199	29%	20%
Extraordinary expenses	0	0	0	-6,013	-142	0	0	0	0		
Reported PAT	5,183	5,225	6,225	2,988	10,879	8,017	7,678	11,791	14,199	31%	20%
No. of shares	1,024	1,012	1,012	1,012	1,012	1,012	1,006	1,006	1,006		
EPS	5.1	5.2	6.1	8.9	10.9	7.9	7.6	11.7	14.1		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

Margins (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	63%	61%	65%	66%	67%	67%	67%	71%	74%	720	357
EBITDA	20%	20%	22%	25%	29%	26%	24%	29%	34%	413	411
Adj. PAT	13%	13%	14%	18%	22%	18%	17%	21%	23%	132	157
Effective tax rate	18%	21%	25%	13%	16%	22%	23%	21%	23%	687	219

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up (%)

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulations INR	15,592	17,084	19,250	22,525	24,541	18,648	18,427	25,235	30,929	26%	23%
% total revenue	38.3%	41.3%	44.1%	45.5%	48.0%	41.9%	40.9%	45.6%	49.8%		
Europe INR	614	541	705	0	0	0	0	0	0	ND	ND
% total revenue	1.5%	1.3%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
EM	3,155	3,308	3,078	4,393	4,893	4,504	4,937	4,960	5,309	9%	7%
% total revenue	7.7%	8.0%	7.1%	8.9%	9.6%	10.1%	11.0%	9.0%	8.6%		
India	11,251	12,648	12,316	12,896	12,270	13,341	14,273	13,806	13,758	12%	0%
% total revenue	27.6%	30.6%	28.2%	26.0%	24.0%	30.0%	31.7%	24.9%	22.2%		
Zydus Wellness	6,916	4,227	4,120	7,075	6,936	4,352	3,974	7,755	8,366	21%	8%
% total revenue	17.0%	10.2%	9.4%	14.3%	13.6%	9.8%	8.8%	14.0%	13.5%		
API INR	1,224	1,117	1,881	1,251	1,389	1,402	1,431	1,436	1,415	2%	-1%
% total revenue	3.0%	2.7%	4.3%	2.5%	2.7%	3.1%	3.2%	2.6%	2.3%		
Others	1,975	2,470	2,273	1,381	1,096	2,263	2,010	2,146	2,298	110%	7%
% total revenue	4.8%	6.0%	5.2%	2.8%	2.1%	5.1%	4.5%	3.9%	3.7%		
Total revenue	40,727	41,395	43,623	49,521	51,125	44,510	45,052	55,338	62,075	21%	12%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	IncRed Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	62,075	60,215	3.1	58,698	5.8
EBITDA (Rsm)	20,840	20,055	3.9	18,444	13.0
Margin (%)	33.6	33.3		31.4	
PAT (Rsm)	14,199	14,904	(4.7)	12,794	11.0

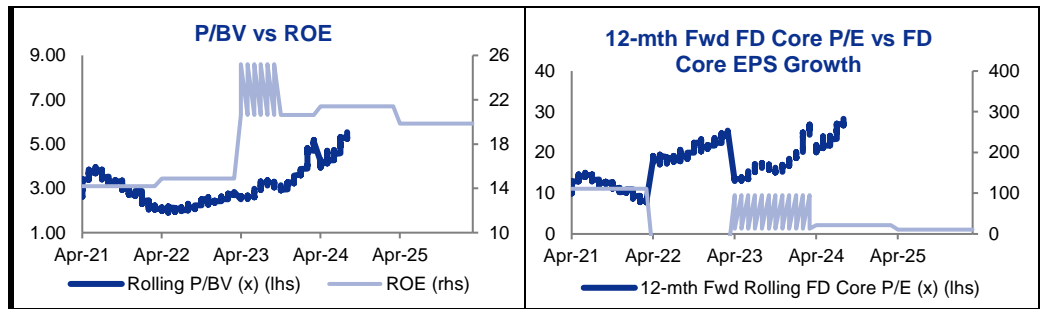
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	2,24,763	2,26,034	1%	2,43,588	2,46,801	1%
EBITDA (Rsm)	62,781	65,140	4%	66,013	71,077	8%
Margin (%)	27.9	28.8		27.1	28.8	
PAT (Rsm)	44,770	46,669	4%	47,213	51,535	9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	152,652	175,218	196,025	226,034	246,801
Gross Profit	97,200	112,117	133,743	163,060	176,329
Operating EBITDA	33,407	38,599	53,843	65,140	71,077
Depreciation And Amortisation	(7,130)	(7,227)	(7,641)	(8,100)	(8,500)
Operating EBIT	26,277	31,372	46,202	57,040	62,577
Financial Income/(Expense)	(1,270)	(1,299)	(812)	(800)	(800)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,247	1,866	2,841	2,400	3,000
Profit Before Tax (pre-EI)	27,254	31,939	48,231	58,640	64,777
Exceptional Items	23,584	(6,042)	(142)		
Pre-tax Profit	50,838	25,897	48,089	58,640	64,777
Taxation	(5,117)	(5,878)	(9,775)	(11,728)	(12,955)
Exceptional Income - post-tax					
Profit After Tax	45,721	20,019	38,314	46,912	51,822
Minority Interests	(848)	(370)	51	(243)	(287)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	44,873	19,649	38,365	46,669	51,535
Recurring Net Profit	23,663	24,320	38,478	46,669	51,535
Fully Diluted Recurring Net Profit	23,663	24,320	38,478	46,669	51,535

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	33,407	38,599	53,843	65,140	71,077
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,515)	(2,358)	(8,711)	(23,392)	(10,521)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(8,851)	(9,353)	(12,853)	(11,971)	(13,242)
Net Interest (Paid)/Received	(1,270)	(1,299)	(812)	(800)	(800)
Tax Paid	(35,128)	(3,808)	(15,032)	(13,571)	(15,442)
Cashflow From Operations	21,041	26,888	32,279	29,777	47,314
Capex	(11,672)	(9,915)	(8,829)	(9,500)	(10,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	29,712				
Other Investing Cashflow					
Cash Flow From Investing	39,081	16,973	23,450	20,277	37,314
Debt Raised/(repaid)					
Proceeds From Issue Of Shares		(8,632)	(7,250)		
Shares Repurchased					
Dividends Paid	(3,722)	(2,671)	(6,210)	(7,042)	(7,042)
Preferred Dividends					
Other Financing Cashflow	(9,641)	(28,347)	(8,338)	1,600	40,284
Cash Flow From Financing	(13,363)	(39,650)	(21,798)	(5,442)	33,242
Total Cash Generated	25,718	(22,677)	1,652	14,835	70,557
Free Cashflow To Equity	60,122	43,861	55,729	50,053	84,629
Free Cashflow To Firm	61,392	45,160	56,541	50,853	85,429

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	34,601	11,924	13,576	28,411	98,967
Total Debtors	33,403	44,168	52,202	56,509	49,360
Inventories	37,194	34,133	34,419	45,207	56,764
Total Other Current Assets	15,754	9,939	14,817	22,603	24,680
Total Current Assets	120,952	100,164	115,014	152,729	229,772
Fixed Assets	64,226	68,267	69,148	70,548	72,048
Total Investments	9,348	9,273	9,680	9,680	9,680
Intangible Assets	64,918	58,949	78,770	78,770	78,770
Total Other Non-Current Assets	18,510	20,911	20,196	20,196	20,196
Total Non-current Assets	157,002	157,400	177,794	179,194	180,694
Short-term Debt	38,427	11,632	7,686	7,686	7,686
Current Portion of Long-Term Debt					
Total Creditors	21,378	21,250	21,267	21,534	21,182
Other Current Liabilities	18,589	22,425	24,466	23,687	20,005
Total Current Liabilities	78,394	55,307	53,419	52,907	48,873
Total Long-term Debt	3,782				38,084
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,240	5,374	18,373	18,373	18,373
Total Non-current Liabilities	9,022	5,374	18,373	18,373	56,457
Total Provisions					
Total Liabilities	87,416	60,681	71,792	71,280	105,330
Shareholders Equity	169,996	175,158	198,295	237,679	281,885
Minority Interests	20,542	21,725	22,721	22,964	23,251
Total Equity	190,538	196,883	221,016	260,643	305,136

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	1.1%	14.8%	11.9%	15.3%	9.2%
Operating EBITDA Growth	6.5%	15.5%	39.5%	21.0%	9.1%
Operating EBITDA Margin	21.9%	22.0%	27.5%	28.8%	28.8%
Net Cash Per Share (Rs)	(7.52)	0.29	5.82	20.47	52.56
BVPS (Rs)	167.95	173.05	195.90	234.81	278.49
Gross Interest Cover	20.69	24.15	56.90	71.30	78.22
Effective Tax Rate	10.1%	22.7%	20.3%	20.0%	20.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	77.32	80.79	89.72	87.77	78.29
Inventory Days	228.92	206.29	200.87	230.76	264.07
Accounts Payables Days	142.96	123.29	124.58	124.04	110.62
ROIC (%)	10.1%	12.2%	15.4%	17.2%	18.0%
ROCE (%)	12.5%	14.2%	21.1%	23.0%	20.2%
Return On Average Assets	8.9%	10.1%	14.2%	15.2%	14.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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