

India

ADD (no change)

Consensus ratings*: Buy 12 Hold 10 Sell 10

Current price:	Rs950
Target price:	Rs1,150
Previous target:	Rs1,330
Up/downside:	21.1%
InCred Research / Consensus:	-1.8%

Reuters:	
Bloomberg:	ZYDUSLIF IN
Market cap:	US\$11,324m
	Rs955,671m
Average daily turnover:	US\$27.1m
	Rs2284.0m
Current shares o/s:	1,012.2m
Free float:	25.0%

*Source: Bloomberg

Key changes in this note

- Reduce FY25F/26F EPS by 6%.
- Lower the target price to Rs1,150 from Rs1,330 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.8)	(24.0)	52.4
Relative (%)	(7.7)	(23.8)	25.8

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

Research Analyst(s)



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Zydus Lifesciences

Steady 2Q performance

- Zydus Lifesciences posted healthy 2Q results (down QoQ on a high base). Revenue was in line & also margin beat, despite R&D costs up 290bp QoQ.
- On track to achieve its FY25F guidance. Street is apprehensive on growth beyond FY26F when the gRevlimid settlement period ends in Jan 2026.
- FY25F/26F EPS cut by 6% due to high ETR. Retain ADD rating on the stock with a lower target price of Rs1,150 factoring in competition in gAsacol HD.

Growth momentum continues in 2QFY25

Zydus Lifesciences (Zydus) posted a healthy 2QFY25 performance, although down QoQ (high-base effect). Revenue was in line with our/Bloomberg or BB consensus estimates, with 18% YoY growth. EBITDA was 20%/8% above our/BB estimates, and margin beat of 480bp/200bp on our/BB estimates. Revenue growth was rock-solid across segments, mostly in double digits, except in the case of APIs which declined 27% QoQ/YoY. Gross margin stood at 71.9% (-250bp QoQ), impacted by lower gRevlimid sales QoQ and competition in gAsacol HD, partly offset by gMirabegron sales. The EBITDA margin was well within the guided range at 27.9% despite, a 290bp QoQ rise in R&D spending.

Outlook beyond FY26F

Based on 1HFY25 performance, Zydus is on track to achieve its guidance of high-teen revenue growth and 28.5-29% margin (assuming competition in gAsacol HD) in FY25F. Street is apprehensive on growth beyond FY26F when the gRevlimid settlement period ends in Jan 2026, as gRevlimid is estimated to contribute ~12% to FY26F EPS. Zydus highlighted products like Sitagliptin 505(b)(2) (FY26F launch), Palbociclib (tablet) & Riociguat (partnered product with exclusive production rights) with their launch in FY27F & FY28F and ZyVac® TCV (with limited competition) in FY26F to support growth beyond gRevlimid.

Other highlights

- a) Effective tax rate or ETR for FY25F and beyond will be 24-25%.
- b) gAsacol HD will witness the full impact of competition in 3QFY25F.
- c) Sitagliptin genericization will happen in the year 2026F. Zydus has a three-year long-term contract with US government for its Sitagliptin 505(b)(2).
- d) NCE Saroglitazar Magnesium NDA would be filed by 4QFY26F and the launch expected by 4QFY27F. Zydus would be the third or fourth player.
- e) Out of eight transdermal filings, two are pending for approval, of which there is uncertainty on one.
- f) R&D – 50% of the spending is towards complex generics and the remaining towards NCEs, biologics and the US market. Development costs account for a major portion.

Retain ADD rating with a lower target price of Rs1,150

We cut FY25F/26F EPS by 6% due to a higher revision in ETR. We lower our target price to Rs1,150, from Rs1,330 earlier, considering the increased competition in gAsacol HD and muted growth in FY26F. Retain our ADD rating on the stock. Downside risks: Slower growth in the US & lower-than expected margin.

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	43,737	48,296
Core EPS (Rs)	23.4	24.0	38.0	43.2	47.7
Core EPS Growth	10.9%	2.8%	58.2%	13.7%	10.4%
FD Core P/E (x)	40.63	39.53	24.98	21.98	19.91
DPS (Rs)	6.0	6.0	7.0	7.0	7.0
Dividend Yield	0.63%	0.63%	0.74%	0.74%	0.74%
EV/EBITDA (x)	29.34	25.22	17.99	14.69	13.05
P/FCFE (x)	15.99	21.92	17.25	21.76	12.30
Net Gearing	4.0%	(0.1%)	(2.7%)	(6.9%)	(15.7%)
P/BV (x)	5.66	5.49	4.85	4.10	3.49
ROE	15.8%	14.1%	20.6%	20.2%	18.9%
% Change In Core EPS Estimates				(6.28%)	(6.28%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	41,395	43,623	49,521	51,125	44,510	45,052	55,338	62,075	52,370	18%	-16%
Consumption of raw materials	15,944	15,104	16,960	16,744	14,738	14,685	16,115	15,861	14,714	0%	-7%
as % of sales	38.5%	34.6%	34.2%	32.8%	33.1%	32.6%	29.1%	25.6%	28.1%		
Employee costs	6,717	6,890	7,239	7,304	7,529	8,173	8,370	8,835	8,792	17%	0%
as % of sales	16.2%	15.8%	14.6%	14.3%	16.9%	18.1%	15.1%	14.2%	16.8%		
R&D costs	2,534	3,435	3,541	3,239	3,225	3,146	3,516	3,925	4,800	49%	22%
as % of sales	6.1%	7.9%	7.2%	6.3%	7.2%	7.0%	6.4%	6.3%	9.2%		
Other expenditure	7,999	8,634	9,225	8,785	7,557	8,024	11,032	12,614	9,450	25%	-25%
as % of sales	19.3%	19.8%	18.6%	17.2%	17.0%	17.8%	19.9%	20.3%	18.0%		
EBITDA	8,201	9,560	12,556	15,053	11,461	11,024	16,305	20,840	14,614	28%	-30%
Margin (%)	19.8%	21.9%	25.4%	29.4%	25.7%	24.5%	29.5%	33.6%	27.9%		
Depreciation	1,818	1,816	1,786	1,798	1,842	1,948	2,053	2,153	2,336		
Other income	444	385	378	360	540	377	1,564	632	682		
Interest	351	328	277	181	87	198	346	322	251		
PBT	6,476	7,801	10,871	13,434	10,072	9,255	15,470	18,997	12,709	26%	-33%
Total tax	1,363	1,952	1,372	2,161	2,264	2,138	3,212	4,361	3,731		
Tax rate (%)	21.0%	25.0%	12.6%	16.1%	22.5%	23.1%	20.8%	23.0%	29.4%		
PAT before MI	5,113	5,849	9,499	11,273	7,808	7,117	12,258	14,636	8,978	15%	-39%
Minority interest (MI)	112	376	-498	-252	209	561	-467	-437	131		
Adj. PAT before extraordinary items	5,225	6,225	9,001	11,021	8,017	7,678	11,791	14,199	9,109	14%	-36%
Extraordinary expenses	0	0	-6,013	-142	0	0	0	0	0		
Reported PAT	5,225	6,225	2,988	10,879	8,017	7,678	11,791	14,199	9,109	14%	-36%
No. of shares	1,012	1,012	1,012	1,012	1,012	1,006	1,006	1,006	1,006		
EPS	5.2	6.1	8.9	10.9	7.9	7.6	11.7	14.1	9.1		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	61%	65%	66%	67%	67%	67%	71%	74%	72%	502	-254
EBITDA	20%	22%	25%	29%	26%	24%	29%	34%	28%	216	-567
Adj. PAT	13%	14%	18%	22%	18%	17%	21%	23%	17%	-62	-548
Effective tax rate	21%	25%	13%	16%	22%	23%	21%	23%	29%	688	640

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up (%)

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulation - INR	17,084	19,250	22,525	24,541	18,648	18,427	25,235	30,929	24,168	30%	-22%
% total revenue	41.3%	44.1%	45.5%	48.0%	41.9%	40.9%	45.6%	49.8%	46.1%		
Europe - INR	541	705	0	0	0	0	0	0	0	ND	ND
% total revenue	1.3%	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
EM	3,308	3,078	4,393	4,893	4,504	4,937	4,960	5,309	5,389	20%	2%
% total revenue	8.0%	7.1%	8.9%	9.6%	10.1%	11.0%	9.0%	8.6%	10.3%		
India	12,648	12,316	12,896	12,270	13,341	14,273	13,806	13,758	14,569	9%	6%
% total revenue	30.6%	28.2%	26.0%	24.0%	30.0%	31.7%	24.9%	22.2%	27.8%		
Zydus Wellness	4,227	4,120	7,075	6,936	4,352	3,974	7,755	8,366	4,875	12%	-42%
% total revenue	10.2%	9.4%	14.3%	13.6%	9.8%	8.8%	14.0%	13.5%	9.3%		
API - INR	1,117	1,881	1,251	1,389	1,402	1,431	1,436	1,415	1,023	-27%	-28%
% total revenue	2.7%	4.3%	2.5%	2.7%	3.1%	3.2%	2.6%	2.3%	2.0%		
Others	2,470	2,273	1,381	1,096	2,263	2,010	2,146	2,298	2,346	4%	2%
% total revenue	6.0%	5.2%	2.8%	2.1%	5.1%	4.5%	3.9%	3.7%	4.5%		
Total revenue	41,395	43,623	49,521	51,125	44,510	45,052	55,338	62,075	52,370	18%	-16%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

Actuals vs estimates	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rsm)	52,370	52,841	(0.9)	52,332	0.1
EBITDA (Rsm)	14,614	12,218	19.6	13,564	7.7
Margin (%)	27.9	23.1		25.9	
PAT (Rsm)	9,109	8,374		9,159	(0.5)

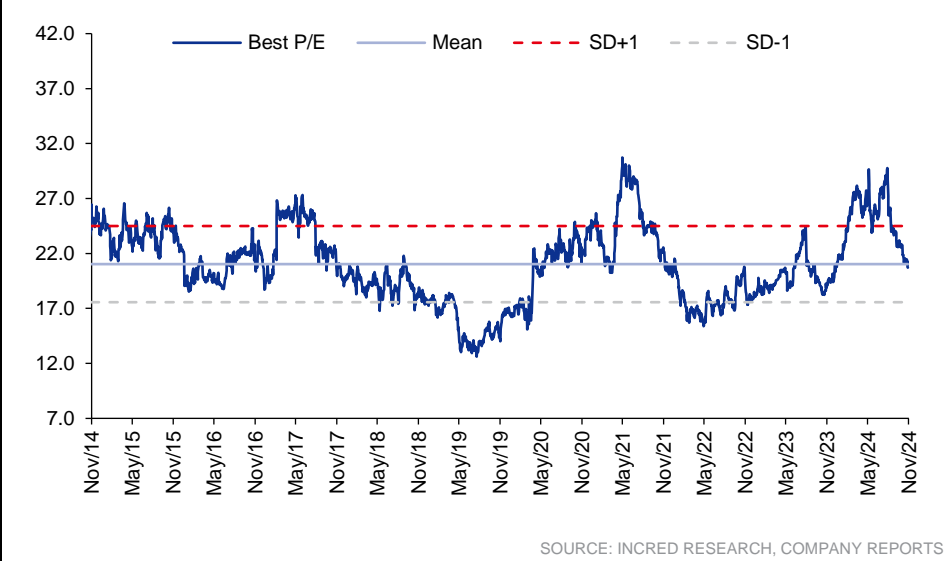
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

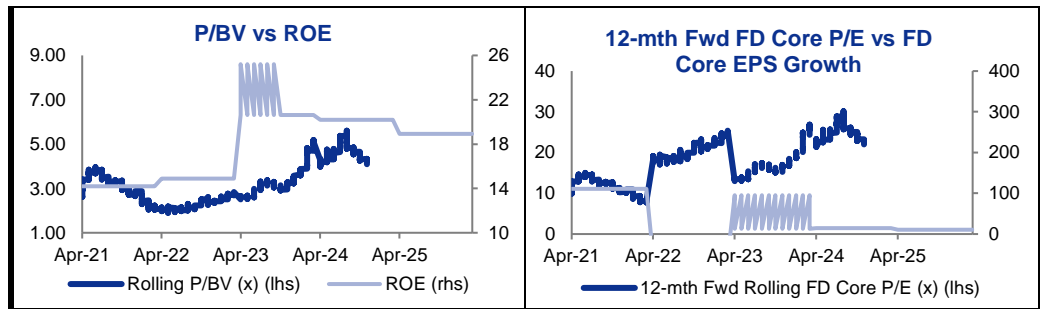
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	2,26,034	2,26,034	0%	2,46,801	2,46,801	0%
EBITDA (Rsm)	65,140	65,140	0%	71,077	71,077	0%
Margin (%)	28.8	28.8		28.8	28.8	
PAT (Rsm)	46,669	43,737	-6%	51,535	48,296	-6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: The sharp recent correction has led Zydus Lifesciences to trade at its mean valuation



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)	(14,660)	(16,194)
Exceptional Income - post-tax					
Profit After Tax	45,721	20,019	38,314	43,980	48,583
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	43,737	48,296
Recurring Net Profit	23,663	24,320	38,478	43,737	48,296
Fully Diluted Recurring Net Profit	23,663	24,320	38,478	43,737	48,296

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)	(14,903)	(16,481)
Net Interest (Paid)/Received	(1,270)	(1,299)	(812)	(800)	(800)
Tax Paid	(35,128)	(3,808)	(15,032)	(16,503)	(18,681)
Cashflow From Operations	21,041	26,888	32,279	26,845	44,076
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	17,345	34,076
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	39,359
Cash Flow From Financing	(13,363)	(39,650)	(21,798)	(5,442)	32,317
Total Cash Generated	25,718	(22,677)	1,652	11,903	66,392
Free Cashflow To Equity	60,122	43,861	55,729	44,189	78,151
Free Cashflow To Firm	61,392	45,160	56,541	44,989	78,951

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	25,479	91,871
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	149,797	222,676
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				37,159
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	55,532
Total Provisions					
Total Liabilities	87,416	60,681	71,792	71,280	104,405
Shareholders Equity	169,996	175,158	198,295	234,747	275,714
Minority Interests	20,542	21,725	22,721	22,964	23,251
Total Equity	190,538	196,883	221,016	257,711	298,965

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	17.58	46.46
BVPS (Rs)	167.95	173.05	195.90	231.92	272.39
Gross Interest Cover	20.69	24.15	56.90	71.30	78.22
Effective Tax Rate	10.1%	22.7%	20.3%	25.0%	25.0%
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%	23.1%	20.5%
Return On Average Assets	8.9%	10.1%	14.2%	14.3%	13.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.