



India

HOLD (previously ADD)

Consensus ratings*: Buy 16 Hold 10 Sell 7

Current price: Rs890
 Target price: ▼ Rs950
 Previous target: Rs1,150
 Up/downside: 6.7%
 InCred Research / Consensus: -6.3%

Reuters:
 Bloomberg: ZYDUSLIF IN
 Market cap: US\$10,453m
 Rs895,196m
 Average daily turnover: US\$15.0m
 Rs1282.6m
 Current shares o/s: 1,012.2m
 Free float: 25.0%

*Source: Bloomberg

Key changes in this note

- Downgrade the stock's rating to HOLD (from ADD).
- Cut the target price to Rs950 from Rs1,150.
- Cut FY26F EPS by 7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.2	0.5	(18.3)
Relative (%)	2.7	(7.3)	(25.6)

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

Research Analyst(s)**Yogesh SONI**

T (91) 22 4161 1566

E yogesh.soni@incredresearch.com

Zydus Lifesciences

Navigating post-gRevlimid margin pressure

- Zydus Lifesciences posted in-line 4Q performance with a beat on the margin front. US biz posted robust growth of 27% QoQ while India biz was strong.
- We express caution regarding the sustainability of elevated margins and project a 330bp/500bp decline in gross/EBITDA margins over FY26F-27F.
- We have cut FY26F EPS by 7%. We also downgrade our rating on the stock to HOLD (from ADD) with a lower target price of Rs950 (Rs1,150 earlier).

In-line 4QFY25 performance with a beat on the margin front

Zydus Lifesciences posted a robust 4QFY25 performance, aligning with our revenue expectation and surpassing margin forecast by 90bp. The reported PAT includes an exceptional item of ~Rs2.2bn relating to asset impairment. Excluding this, adjusted PAT stood at Rs13.9bn, reflecting a growth of 18% YoY. Gross margin (GM) expanded by 400bp QoQ due to an improvement in the base business, growth in India & US businesses and a price hike in the wellness segment. The EBITDA margin at 32.6% (our estimate was 31.7%) expanded by 600bp. Zydus Lifesciences undertook some digital initiatives which aided the margin by 50-70bp in FY25 and the same is expected to continue in FY26F as well. The US business at US\$363m (our estimate was US\$365m) grew 27% QoQ primarily due to enhanced offtake of Mirabegron and a strong base business. Emerging markets delivered 12% YoY growth, while the India market grew 10.7% YoY (our estimate was 7.5%), driven by strong performance in the branded business. The wellness segment saw 17% YoY growth, with a 13% volume expansion contributing to this uptick.

Margin contraction likely going ahead

Zydus Lifesciences witnessed a significant margin expansion post-gRevlimid launch, with the GM surpassing 70% (64% in FY23) and the EBITDA margin reaching the early 30s (22% in FY23) within two years. While the improvement was bolstered by new product launches, lower raw material prices & cost optimization, we feel gRevlimid played a pivotal role. Going ahead, we express caution on the sustainability of elevated margins over FY26F-27F. The guidance of 26% EBITDA margin in FY26F corroborates our concerns. We project a 330bp/500bp decline in GM (69.4% in FY27F)/EBITDA margin (25% in FY27F), reflecting intense competition and no meaningful contribution from gRevlimid.

Downgrade to HOLD rating with a lower target price of Rs950

We downgrade our rating on Zydus Lifesciences to **HOLD** (from **ADD**), with a lower target price of **Rs950 (Rs1,150 earlier)**. This reflects a **230bp cut in our FY26F margin assumption**, leading to a **7% cut in FY26F EPS**. The stock has underperformed the Nifty Pharma index by 30% over the past one year, indicating concerns on the growth front. While the current valuation appears to factor in the anticipated earnings decline, offering a limited downside, we do not foresee a significant upside until robust recovery materializes. Downside/upside risks: Slower-than-expected growth in the US market and further margin contraction and vice-versa.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	175,218	196,025	232,415	250,051	248,400
Operating EBITDA (Rsm)	38,599	53,843	70,585	66,314	62,029
Net Profit (Rsm)	19,649	38,365	45,255	43,857	40,572
Core EPS (Rs)	24.0	38.0	46.4	43.3	40.1
Core EPS Growth	2.8%	58.2%	22.0%	(6.6%)	(7.5%)
FD Core P/E (x)	37.03	23.40	19.19	20.53	22.20
DPS (Rs)	6.0	7.0	11.0	7.0	7.0
Dividend Yield	0.67%	0.79%	1.24%	0.79%	0.79%
EV/EBITDA (x)	23.64	16.86	12.22	12.61	12.97
P/FCFE (x)	20.53	18.56	8.30	10.52	10.52
Net Gearing	(0.1%)	(2.7%)	(17.6%)	(24.7%)	(32.0%)
P/BV (x)	5.14	4.54	3.76	3.31	2.95
ROE	14.1%	20.6%	21.4%	17.2%	14.1%
% Change In Core EPS Estimates				(7.02%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	49,521	51,125	44,510	45,052	55,338	62,075	52,370	52,691	65,279	18%	24%
Consumption of raw materials	16,960	16,744	14,738	14,685	16,115	15,861	14,714	15,834	16,971	5%	7%
as % of sales	34.2%	32.8%	33.1%	32.6%	29.1%	25.6%	28.1%	30.1%	26.0%		
Employee costs	7,239	7,304	7,529	8,173	8,370	8,835	8,792	9,465	9,714	16%	3%
as % of sales	14.6%	14.3%	16.9%	18.1%	15.1%	14.2%	16.8%	18.0%	14.9%		
R&D costs	3,541	3,239	3,225	3,146	3,516	3,925	4,800	5,031	4,799	36%	-5%
as % of sales	7.2%	6.3%	7.2%	7.0%	6.4%	6.3%	9.2%	9.5%	7.4%		
Other expenditure	9,225	8,785	7,557	8,024	11,032	12,614	9,450	8,485	12,540	14%	48%
as % of sales	18.6%	17.2%	17.0%	17.8%	19.9%	20.3%	18.0%	16.1%	19.2%		
EBITDA	12,556	15,053	11,461	11,024	16,305	20,840	14,614	13,876	21,255	30%	53%
Margins (%)	25.4%	29.4%	25.7%	24.5%	29.5%	33.6%	27.9%	26.3%	32.6%		
Depreciation	1,786	1,798	1,842	1,948	2,053	2,153	2,336	2,290	2,379		
Other income	378	360	540	377	1,564	632	682	575	806		
Interest	277	181	87	198	346	322	251	320	766		
PBT	10,871	13,434	10,072	9,255	15,470	18,997	12,709	11,841	18,916	22%	60%
Total tax	1,372	2,161	2,264	2,138	3,212	4,361	3,731	1,795	4,232		
Tax rate (%)	12.6%	16.1%	22.5%	23.1%	20.8%	23.0%	29.4%	15.2%	22.4%		
PAT before MI	9,499	11,273	7,808	7,117	12,258	14,636	8,978	10,046	14,684	20%	46%
Minority interest (MI)	-498	-252	209	561	-467	-437	131	192	-779		
Adj. PAT before extraordinary items	9,001	11,021	8,017	7,678	11,791	14,199	9,109	10,238	13,905	18%	36%
Extraordinary expenses	-6,013	-142	0	0	0	0	0	0	-2,196		
Reported PAT	2,988	10,879	8,017	7,678	11,791	14,199	9,109	10,238	11,709	-1%	14%
No. of shares	1,012	1,012	1,012	1,006	1,006	1,006	1,006	1,006	1,006		
EPS	8.9	10.9	7.9	7.6	11.7	14.1	9.1	10.2	13.8		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

Margins (%)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	66%	67%	67%	67%	71%	74%	72%	70%	74%	312	405
EBITDA	25%	29%	26%	24%	29%	34%	28%	26%	33%	310	623
Adj. PAT	18%	22%	18%	17%	21%	23%	17%	19%	21%	-1	187
Effective tax rate	13%	16%	22%	23%	21%	23%	29%	15%	22%	161	721

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up (%)

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulations - INR	22,525	24,541	18,648	18,427	25,235	30,929	24,168	24,096	31,307	24%	30%
% total revenue	45.5%	48.0%	41.9%	40.9%	45.6%	49.8%	46.1%	45.7%	48.0%		
EM	4,393	4,893	4,504	4,937	4,960	5,309	5,389	5,702	5,547	12%	-3%
% total revenue	8.9%	9.6%	10.1%	11.0%	9.0%	8.6%	10.3%	10.8%	8.5%		
India	12,896	12,270	13,341	14,273	13,912	13,758	14,569	15,145	15,394	11%	2%
% total revenue	26.0%	24.0%	30.0%	31.7%	25.1%	22.2%	27.8%	28.7%	23.6%		
Zydus Wellness	7,075	6,936	4,352	3,974	7,755	8,366	4,875	4,488	9,081	17%	102%
% total revenue	14.3%	13.6%	9.8%	8.8%	14.0%	13.5%	9.3%	8.5%	13.9%		
API INR	1,251	1,389	1,402	1,431	1,436	1,415	1,023	1,537	1,306	-9%	-15%
% total revenue	2.5%	2.7%	3.1%	3.2%	2.6%	2.3%	2.0%	2.9%	2.0%		
Others	1,381	1,096	2,263	2,010	2,040	2,298	2,346	1,723	2,644	30%	53%
% total revenue	2.8%	2.1%	5.1%	4.5%	3.7%	3.7%	4.5%	3.3%	4.1%		
Total revenue	49,521	51,125	44,510	45,052	55,338	62,075	52,370	52,691	65,279	18%	24%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

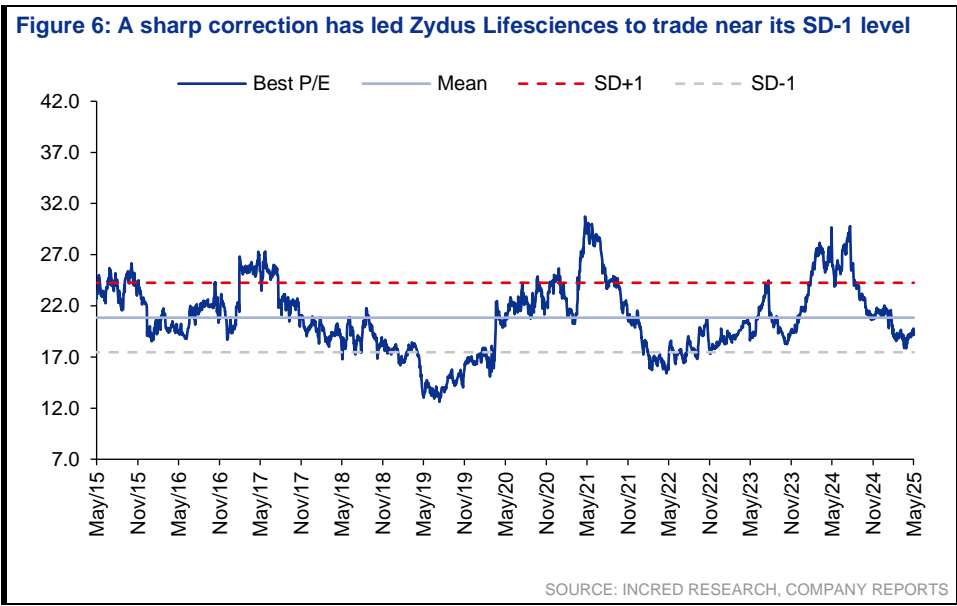
	Actuals	Incrid Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	65,279	64,107	1.8	64,344	1.5
EBITDA (Rsm)	21,255	20,317	4.6	20,262	4.9
Margin (%)	32.6	31.7		31.5	
PAT (Rsm)	11,709	14,033	(16.6)	13,697	(14.5)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

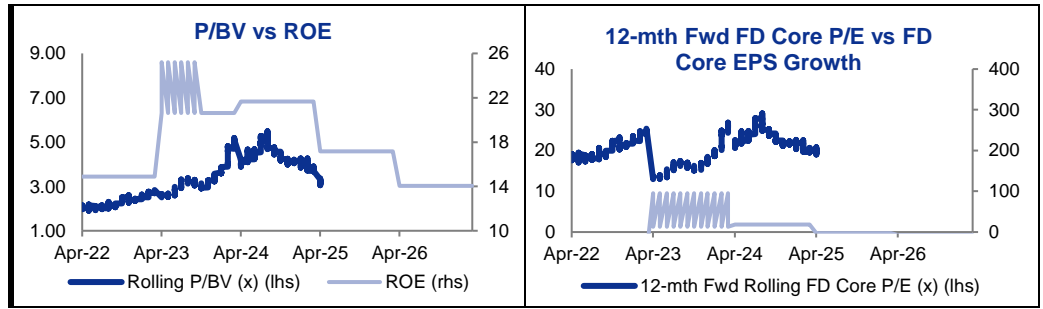
Figure 5: Our revised earnings estimates

	Old	FY26F	New	Variance (%)
Revenue (Rsm)	2,44,414		2,50,051	2%
EBITDA (Rsm)	70,427		66,314	-6%
Margin (%)	28.8		26.5	
PAT (Rsm)	47,170		43,857	-7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	175,218	196,025	232,415	250,051	248,400
Gross Profit	112,117	133,743	169,035	175,432	172,285
Operating EBITDA	38,599	53,843	70,585	66,314	62,029
Depreciation And Amortisation	(7,227)	(7,641)	(9,158)	(9,550)	(10,250)
Operating EBIT	31,372	46,202	61,427	56,764	51,779
Financial Income/(Expense)	(1,299)	(812)	(1,659)	(1,200)	(1,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,866	2,841	2,695	2,800	3,000
Profit Before Tax (pre-EI)	31,939	48,231	62,463	58,364	53,779
Exceptional Items	(6,042)	(142)	(2,196)		
Pre-tax Profit	25,897	48,089	60,267	58,364	53,779
Taxation	(5,878)	(9,775)	(14,119)	(14,007)	(12,907)
Exceptional Income - post-tax					
Profit After Tax	20,019	38,314	46,148	44,357	40,872
Minority Interests	(370)	51	(893)	(500)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	19,649	38,365	45,255	43,857	40,572
Recurring Net Profit	24,320	38,478	46,937	43,857	40,572
Fully Diluted Recurring Net Profit	24,320	38,478	46,937	43,857	40,572

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	38,599	53,843	70,585	66,314	62,029
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,358)	(8,711)	(55,156)	(2,506)	(512)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(9,353)	(12,853)	52,338	(14,507)	(13,207)
Net Interest (Paid)/Received	(1,299)	(812)	(1,659)	(1,200)	(1,000)
Tax Paid	(3,808)	(15,032)	53,498	(16,107)	(15,207)
Cashflow From Operations	26,888	32,279	67,767	49,301	48,310
Capex	(9,915)	(8,829)	(16,612)	(13,000)	(11,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		(7,201)	(10,398)		
Other Investing Cashflow					
Cash Flow From Investing	16,973	16,249	40,757	36,301	37,310
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	(8,632)	(7,250)			
Shares Repurchased					
Dividends Paid	(2,671)	(6,210)	(3,025)	(11,066)	(7,042)
Preferred Dividends					
Other Financing Cashflow	(28,347)	(1,137)	26,771	1,617	2,289
Cash Flow From Financing	(39,650)	(14,597)	23,746	(9,449)	(4,753)
Total Cash Generated	(22,677)	1,652	64,503	26,852	32,557
Free Cashflow To Equity	43,861	48,528	108,524	85,602	85,620
Free Cashflow To Firm	45,160	49,340	110,183	86,802	86,620

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	11,924	13,576	78,079	104,931	137,488
Total Debtors	44,168	52,202	40,247	42,509	44,712
Inventories	34,133	34,419	39,440	45,009	43,470
Total Other Current Assets	9,939	14,817	12,695	15,003	12,420
Total Current Assets	100,164	115,014	170,461	207,452	238,090
Fixed Assets	68,267	69,148	73,599	77,049	77,799
Total Investments	9,273	9,680	15,567	15,567	15,567
Intangible Assets	58,949	78,770	84,657	84,657	84,657
Total Other Non-Current Assets	20,911	20,196	27,733	27,733	27,733
Total Non-current Assets	157,400	177,794	201,556	205,006	205,756
Short-term Debt	11,632	7,686	31,695	31,695	31,695
Current Portion of Long-Term Debt					
Total Creditors	21,250	21,267	23,058	25,804	25,068
Other Current Liabilities	22,425	24,466	35,663	40,550	38,855
Total Current Liabilities	55,307	53,419	90,416	98,049	95,619
Total Long-term Debt				17	306
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,374	18,373	18,017	18,017	18,017
Total Non-current Liabilities	5,374	18,373	18,017	18,034	18,323
Total Provisions					
Total Liabilities	60,681	71,792	108,433	116,083	113,941
Shareholders Equity	175,158	198,295	239,531	271,822	305,052
Minority Interests	21,725	22,721	24,053	24,553	24,853
Total Equity	196,883	221,016	263,584	296,375	329,905

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	14.8%	11.9%	18.6%	7.6%	(0.7%)
Operating EBITDA Growth	15.5%	39.5%	31.1%	(6.1%)	(6.5%)
Operating EBITDA Margin	22.0%	27.5%	30.4%	26.5%	25.0%
Net Cash Per Share (Rs)	0.29	5.82	45.82	72.34	104.22
BVPS (Rs)	173.05	195.90	236.64	268.54	301.37
Gross Interest Cover	24.15	56.90	37.03	47.30	51.78
Effective Tax Rate	22.7%	20.3%	23.4%	24.0%	24.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	80.79	89.72	72.59	60.40	64.08
Inventory Days	206.29	200.87	212.67	206.54	212.14
Accounts Payables Days	123.29	124.58	127.63	119.51	121.98
ROIC (%)	12.2%	15.4%	20.9%	18.8%	17.1%
ROCE (%)	14.2%	21.1%	23.4%	18.2%	15.0%
Return On Average Assets	10.1%	14.2%	14.9%	11.5%	9.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

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.