

India

**ADD** (no change)

Consensus ratings\*: Buy 17 Hold 10 Sell 6

Current price:	Rs977
Target price:	Rs1,150
Previous target:	Rs1,150
Up/downside:	17.7%
InCred Research / Consensus:	4.4%

Reuters:	
Bloomberg:	ZYDUSLIF IN
Market cap:	US\$13,538m Rs983,091m
Average daily turnover:	US\$26.2m Rs1901.1m
Current shares o/s:	1,012.2m
Free float:	25.0%

\*Source: Bloomberg

**Key changes in this note**

- Reduce FY26F EPS by 8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.1	(1.2)	28.4
Relative (%)	1.3	0.4	17.7

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

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# Zydus Lifesciences

## Mixed 3Q performance

- Zydus Lifesciences posted a mixed 3Q performance with a beat on the US biz and a miss on margin & India biz. Emerging markets continued the healthy run.
- On track to achieve its FY25F guidance. Street is apprehensive on growth beyond FY26F when the gRevlimid settlement period ends in Jan 2026.
- FY26F EPS cut by 8%. Retain ADD rating on the stock with unchanged target price of Rs1,150.

### Broadly in-line 3QFY25 performance

Zydus Lifesciences (Zydus) posted a mixed 3QFY25 performance, with strong US business but a miss on the EBITDA front. EBITDA includes one-off costs of Rs950m relating to higher legal/professional fees, one-time incentives and GST-related loss. Further, reported EBITDA also includes forex gains of Rs1.82bn. Adjusted margin, excluding one-offs and forex gains, stood at 24.7%. Revenue at Rs52.7bn was in line with our/Bloomberg or BB consensus estimates, with a 17% YoY growth (flatish QoQ). The US business was flat QoQ at US\$285m (our estimate US\$275m) due to better offtake in Mirabegron, offset by low gRevlimid & gAsacol HD sales. Emerging markets performed well, posting a fifth consecutive quarter of sequential growth. India market growth at 5% YoY was below our estimate of 7%. Gross margin at 69.9% (-200bp QoQ), was hit by product mix, lower gRevlimid sales and competition in gAsacol HD.

### Outlook beyond FY26F

Zydus is on track to achieve its FY25F guidance of high-teen revenue growth and 28.5-29% margin (assuming competition in gAsacol HD). Street is apprehensive on growth beyond FY26F when the gRevlimid settlement period ends in Jan 2026. Zydus expects 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) Zydus expects its US business to grow in FY26F, despite a high FY25F base. b) gAsacol HD will witness further competition post completion of the CGT period (one new player may enter). c) The capex will be high in FY26F (20-30% above the normal level). d) Zydus will participate in the first wave of GLP-1 in India with its own APIs and formulations.

### Retain ADD rating with an unchanged target price of Rs1,150

We cut FY26F EPS by 8%. We maintain our target price of Rs1,150 and maintain ADD rating on the stock. Downside risks: Slower growth in the US market and a lower-than expected margin.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	152,652	175,218	196,025	228,854	244,414
Operating EBITDA (Rsm)	33,407	38,599	53,843	70,223	70,427
Net Profit (Rsm)	44,873	19,649	38,365	46,917	47,170
Core EPS (Rs)	23.4	24.0	38.0	46.4	46.6
Core EPS Growth	10.9%	2.8%	58.2%	21.9%	0.5%
FD Core P/E (x)	41.79	40.66	25.70	21.08	20.97
DPS (Rs)	6.0	6.0	7.0	7.0	7.0
Dividend Yield	0.61%	0.61%	0.72%	0.72%	0.72%
EV/EBITDA (x)	30.17	25.94	18.50	14.00	13.49
P/FCFE (x)	16.45	22.55	17.75	21.26	11.50
Net Gearing	4.0%	(0.1%)	(2.7%)	(7.2%)	(17.2%)
P/BV (x)	5.82	5.65	4.99	4.15	3.55
ROE	15.8%	14.1%	20.6%	21.5%	18.3%
% Change In Core EPS Estimates				7.27%	(2.33%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	43,623	49,521	51,125	44,510	45,052	55,338	62,075	52,370	52,691	17%	1%
Consumption of raw materials	15,104	16,960	16,744	14,738	14,685	16,115	15,861	14,714	15,834	8%	8%
as % of sales	34.6%	34.2%	32.8%	33.1%	32.6%	29.1%	25.6%	28.1%	30.1%		
Employee costs	6,890	7,239	7,304	7,529	8,173	8,370	8,835	8,792	9,465	16%	8%
as % of sales	15.8%	14.6%	14.3%	16.9%	18.1%	15.1%	14.2%	16.8%	18.0%		
R&D costs	3,435	3,541	3,239	3,225	3,146	3,516	3,925	4,800	5,031	60%	5%
as % of sales	7.9%	7.2%	6.3%	7.2%	7.0%	6.4%	6.3%	9.2%	9.5%		
Other expenditure	8,634	9,225	8,785	7,557	8,024	11,032	12,614	9,450	8,485	6%	-10%
as % of sales	19.8%	18.6%	17.2%	17.0%	17.8%	19.9%	20.3%	18.0%	16.1%		
EBITDA	9,560	12,556	15,053	11,461	11,024	16,305	20,840	14,614	13,876	26%	-5%
Margins (%)	21.9%	25.4%	29.4%	25.7%	24.5%	29.5%	33.6%	27.9%	26.3%		
Depreciation	1,816	1,786	1,798	1,842	1,948	2,053	2,153	2,336	2,290		
Other Income	385	378	360	540	377	1,564	632	682	575		
Interest	328	277	181	87	198	346	322	251	320		
PBT	7,801	10,871	13,434	10,072	9,255	15,470	18,997	12,709	11,841	28%	-7%
Total tax	1,952	1,372	2,161	2,264	2,138	3,212	4,361	3,731	1,795		
Tax rate (%)	25.0%	12.6%	16.1%	22.5%	23.1%	20.8%	23.0%	29.4%	15.2%		
PAT before MI	5,849	9,499	11,273	7,808	7,117	12,258	14,636	8,978	10,046	41%	12%
Minority interest (MI)	376	-498	-252	209	561	-467	-437	131	192		
Adj. PAT before extraordinary items	6,225	9,001	11,021	8,017	7,678	11,791	14,199	9,109	10,238	33%	12%
Extraordinary expenses	0	-6,013	-142	0	0	0	0	0	0		
Reported PAT	6,225	2,988	10,879	8,017	7,678	11,791	14,199	9,109	10,238	33%	12%
No. of shares	1,012	1,012	1,012	1,012	1,006	1,006	1,006	1,006	1,006		
EPS	6.1	8.9	10.9	7.9	7.6	11.7	14.1	9.1	10.2		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

Margins (%)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	65%	66%	67%	67%	67%	71%	74%	72%	70%	254	-195
EBITDA	22%	25%	29%	26%	24%	29%	34%	28%	26%	187	-157
Adj. PAT	14%	18%	22%	18%	17%	21%	23%	17%	19%	239	204
Effective tax rate	25%	13%	16%	22%	23%	21%	23%	29%	15%	-794	-1420

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up (%)

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulations INR	19,250	22,525	24,541	18,648	18,427	25,235	30,929	24,168	24,096	31%	0%
% total revenue	44.1%	45.5%	48.0%	41.9%	40.9%	45.6%	49.8%	46.1%	45.7%		
Europe INR	705	0	0	0	0	0	0	0	0	0	0
% total revenue	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Emerging markets	3,078	4,393	4,893	4,504	4,937	4,960	5,309	5,389	5,702	15%	6%
% total revenue	7.1%	8.9%	9.6%	10.1%	11.0%	9.0%	8.6%	10.3%	10.8%		
India	12,316	12,896	12,270	13,341	14,273	13,806	13,758	14,569	14,982	5%	3%
% total revenue	28.2%	26.0%	24.0%	30.0%	31.7%	24.9%	22.2%	27.8%	28.4%		
Zydus Wellness	4,120	7,075	6,936	4,352	3,974	7,755	8,366	4,875	4,488	13%	-8%
% total revenue	9.4%	14.3%	13.6%	9.8%	8.8%	14.0%	13.5%	9.3%	8.5%		
API INR	1,881	1,251	1,389	1,402	1,431	1,436	1,415	1,023	1,537	7%	50%
% total revenue	4.3%	2.5%	2.7%	3.1%	3.2%	2.6%	2.3%	2.0%	2.9%		
Others	2,273	1,381	1,096	2,263	2,010	2,146	2,298	2,346	1,886	-6%	-20%
% total revenue	5.2%	2.8%	2.1%	5.1%	4.5%	3.9%	3.7%	4.5%	3.6%		
Total revenue	43,623	49,521	51,125	44,510	45,052	55,338	62,075	52,370	52,691	17%	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	IncRed Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rs m)	52,691	52,415	0.5	52,041	1.2
EBITDA (Rs m)	13,876	14,377	(3.5)	13,481	2.9
Margin (%)	26.3	27.4		25.9	
PAT (Rs m)	10,238	10,074	1.6	8,930	14.6

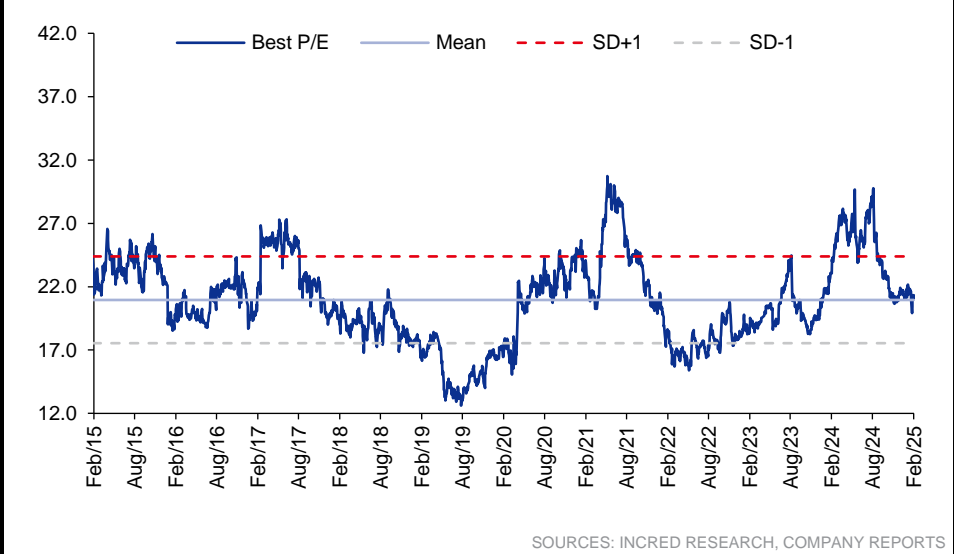
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

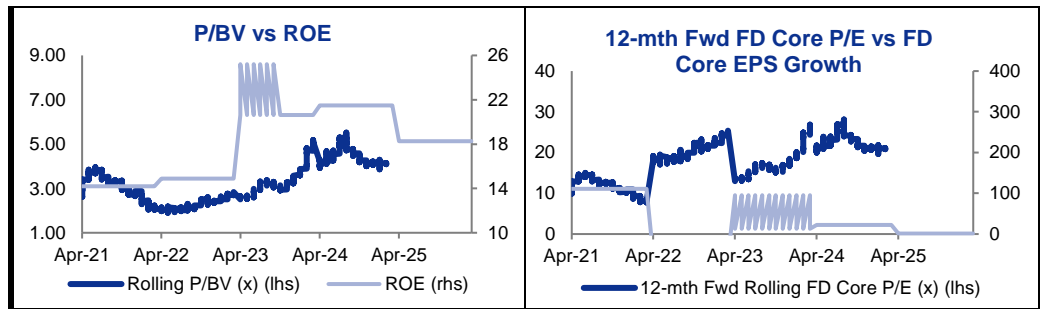
	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rs m)	2,26,034	2,28,854	1%	2,46,801	2,44,414	-1%
EBITDA (Rs m)	65,140	70,223	8%	71,077	70,427	-1%
Margin (%)	28.8	30.7		28.8	28.8	
PAT (Rs m)	46,669	46,917	1%	51,535	47,170	-8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: The sharp correction has led Zydus Lifesciences to trade below its mean valuation**



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	152,652	175,218	196,025	228,854	244,414
<b>Gross Profit</b>	97,200	112,117	133,743	165,385	174,652
<b>Operating EBITDA</b>	33,407	38,599	53,843	70,223	70,427
Depreciation And Amortisation	(7,130)	(7,227)	(7,641)	(9,100)	(10,000)
<b>Operating EBIT</b>	26,277	31,372	46,202	61,123	60,427
Financial Income/(Expense)	(1,270)	(1,299)	(812)	(1,200)	(800)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,247	1,866	2,841	2,500	3,000
<b>Profit Before Tax (pre-EI)</b>	27,254	31,939	48,231	62,423	62,627
Exceptional Items	23,584	(6,042)	(142)		
<b>Pre-tax Profit</b>	50,838	25,897	48,089	62,423	62,627
Taxation	(5,117)	(5,878)	(9,775)	(15,606)	(15,657)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	45,721	20,019	38,314	46,817	46,970
Minority Interests	(848)	(370)	51	100	200
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	44,873	19,649	38,365	46,917	47,170
Recurring Net Profit	23,663	24,320	38,478	46,917	47,170
<b>Fully Diluted Recurring Net Profit</b>	23,663	24,320	38,478	46,917	47,170

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	33,407	38,599	53,843	70,223	70,427
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,515)	(2,358)	(8,711)	(26,708)	(6,960)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(8,851)	(9,353)	(12,853)	(15,506)	(15,457)
Net Interest (Paid)/Received	(1,270)	(1,299)	(812)	(1,200)	(800)
Tax Paid	(35,128)	(3,808)	(15,032)	(16,806)	(17,657)
<b>Cashflow From Operations</b>	21,041	26,888	32,279	28,010	48,010
Capex	(11,672)	(9,915)	(8,829)	(9,500)	(10,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	29,712				
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	39,081	16,973	23,450	18,510	38,010
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)	1,300	39,667
<b>Cash Flow From Financing</b>	(13,363)	(39,650)	(21,798)	(5,742)	32,625
Total Cash Generated	25,718	(22,677)	1,652	12,768	70,635
<b>Free Cashflow To Equity</b>	60,122	43,861	55,729	46,519	86,021
<b>Free Cashflow To Firm</b>	61,392	45,160	56,541	47,719	86,821

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	34,601	11,924	13,576	26,344	96,979
Total Debtors	33,403	44,168	52,202	57,213	48,883
Inventories	37,194	34,133	34,419	45,771	56,215
Total Other Current Assets	15,754	9,939	14,817	22,885	24,441
<b>Total Current Assets</b>	<b>120,952</b>	<b>100,164</b>	<b>115,014</b>	<b>152,213</b>	<b>226,518</b>
Fixed Assets	64,226	68,267	69,148	69,548	69,548
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
<b>Total Non-current Assets</b>	<b>157,002</b>	<b>157,400</b>	<b>177,794</b>	<b>178,194</b>	<b>178,194</b>
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	20,694	20,657
Other Current Liabilities	18,589	22,425	24,466	22,763	19,510
<b>Total Current Liabilities</b>	<b>78,394</b>	<b>55,307</b>	<b>53,419</b>	<b>51,143</b>	<b>47,853</b>
Total Long-term Debt	3,782				37,467
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,240	5,374	18,373	18,373	18,373
<b>Total Non-current Liabilities</b>	<b>9,022</b>	<b>5,374</b>	<b>18,373</b>	<b>18,373</b>	<b>55,840</b>
Total Provisions					
<b>Total Liabilities</b>	<b>87,416</b>	<b>60,681</b>	<b>71,792</b>	<b>69,516</b>	<b>103,693</b>
Shareholders Equity	169,996	175,158	198,295	238,270	278,599
Minority Interests	20,542	21,725	22,721	22,621	22,421
<b>Total Equity</b>	<b>190,538</b>	<b>196,883</b>	<b>221,016</b>	<b>260,891</b>	<b>301,020</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	1.1%	14.8%	11.9%	16.7%	6.8%
Operating EBITDA Growth	6.5%	15.5%	39.5%	30.4%	0.3%
Operating EBITDA Margin	21.9%	22.0%	27.5%	30.7%	28.8%
Net Cash Per Share (Rs)	(7.52)	0.29	5.82	18.43	51.20
BVPS (Rs)	167.95	173.05	195.90	235.40	275.24
Gross Interest Cover	20.69	24.15	56.90	50.94	75.53
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	87.25	79.22
Inventory Days	228.92	206.29	200.87	230.58	266.80
Accounts Payables Days	142.96	123.29	124.58	120.66	108.18
ROIC (%)	10.1%	12.2%	15.4%	18.2%	17.5%
ROCE (%)	12.5%	14.2%	21.1%	24.6%	19.7%
Return On Average Assets	8.9%	10.1%	14.2%	15.3%	12.9%

SOURCES: 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.