

Retail Equity Research

Zydus Lifesciences Limited

Pharmaceuticals

BSE CODE: 532321 NSE CODE: ZYDUSLIFE
Bloomberg CODE: ZYDUSLIF:IN SENSEX: 75,170

ACCUMULATE

12 Months Investment Period Rating as per Mid Cap
CMP Rs. 1,050 TARGET Rs. 1,196 RETURN 14% ↑
(Closing: 28-05-24)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Strong drug pipeline to sustain growth

Zydus Lifesciences Ltd. is one of India's leading vertically integrated pharmaceutical companies, with presence across the value chain, from manufacturing of finished dosage forms to active pharmaceutical ingredients, as well as animal healthcare and wellness products.

- In Q4FY24, the company's consolidated revenue rose 10.4% YoY to Rs. 5,534cr, owing to robust volume growth across all geographies, supported by new drug launches and a strong product portfolio.
- EBITDA margin improved to 29.5% (+440 bps), with the management projecting a similar trajectory in FY25.
- New drug launches as well as existing robust portfolio have the potential for the company to sustain its performance. However, valuations are looking expensive and reduced to ACCUMULATE rating with a rolled over target price of Rs. 1,196, based on 27x FY26E adjusted EPS.

Key drug launches and increased volumes drive growth

In Q4FY24, Zydus Lifesciences's consolidated revenue rose 10.4% YoY to Rs. 5,534cr, driven by strong growth of its Pharmaceuticals (+10.5% YoY) and Consumer products (9.8% YoY) products. Key drug launches and increase in volumes propelled the US formulations (12.0% YoY) and Indian formulations (+7.1% YoY) businesses. In fact, the Indian formulations' branded business clocked 8.0% YoY growth, which was faster than market growth. The Indian business also gained market share in derma and anti-infective therapies, with the segments having the potential of maintain a robust growth momentum. Consumer wellness' revenue grew 9.6% YoY, primarily owing to uptick in demand for summer led brands like Glucon D and Nycil, and recovery in the food and nutrition segment supporting the trajectory.

R&D spends to continue, Elevated Margins

Zydus Lifesciences has outlined +30 launches for FY25. Meanwhile, research and development (R&D) spend is projected to trend at 7.0-8.0% of revenue in FY25 vs. 6.7% R&D spends in FY24. EBITDA increased 29.9% YoY with a significant increase in EBITDA margin by 440 bps YoY to 29.5% due to the elevated topline and the company exercising control over expenses. Resultantly, profit after tax grew a sharp 298.6% YoY to Rs. 1,182cr.

Key concall highlights

- The management expects double digit-to-high teens revenue growth for FY25, depending on product launches. Also, it is likely to maintain EBITDA margin of 27.5% or more in FY25.
- The board declared a dividend of Rs. 3 per share for FY24.
- In Q4FY24, the company commenced operations in the UK, and plans to further expand its footprint through leveraging of its global R&D portfolio.

Valuation

Zydus Lifesciences delivered a strong performance in FY24, backed by sustained new drug launches. Going forward, enhanced contributions from drugs such as Revlimid, Transdermal, Mirabegron and LiqMeds will scale up its US business. Focus on its branded portfolio is expected to lift the Indian business as well. Also, continual R&D spending will enable the company to file for new abbreviated new drug applications across geographies. Margins are expected to sustain at current high levels as well. However, valuations are looking expensive and reduced to ACCUMULATE rating with a rolled over target price of Rs. 1,196, based on 27x FY26E adjusted EPS.

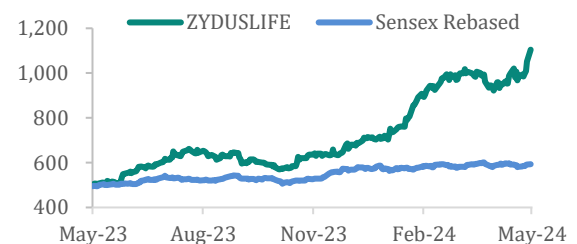
Company Data

Market Cap (cr)	Rs.109,524
Enterprise Value (cr)	Rs.112,585
Outstanding Shares (cr)	101.2
Free Float	25.0%
Dividend Yield	0.3%
52 week high	Rs.1,172
52 week low	Rs.499
6m average volume (lacs)	14.9
Beta	0.5
Face value	Rs.1

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	75.0	75.0	75.0
FII's	4.9	5.0	5.7
MFs/Insti	13.1	13.0	12.6
Public	6.8	6.7	6.4
Others	0.3	0.3	0.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	21.8%	70.3%	120.2%
Absolute Sensex	1.8%	12.2%	19.8%
Relative Return*	20.0%	58.2%	100.4%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	19,547	21,708	23,028
Growth (%)	13.4	11.1	6.1
EBITDA	5,384	5,989	6,351
EBITDA Margin (%)	27.5	27.6	27.6
Adj. PAT	3,874	4,130	4,483
Growth (%)	51.1	6.6	8.5
Adj. EPS	38.1	40.8	44.3
Growth (%)	51.1	6.6	8.5
P/E	26.4	26.7	24.6
P/B	5.1	4.7	4.0
EV/EBITDA	19.4	18.8	17.7
ROE (%)	19.3	17.5	16.1
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Revenue	5,534	5,011	10.4	4,505	22.8	19,547	17,237	13.4
EBITDA	1,631	1,256	29.9	1,102	47.9	5,384	3,860	39.5
EBITDA margins	29.5	25.1	440bps	24.5	500bps	27.5	22.4	510bps
Depreciation	205	179	14.9	195	5.4	764	723	5.7
EBIT	1,425	1,077	32.3	908	57.0	4,620	3,137	47.3
Interest	35	28	24.9	20	74.7	81	130	(37.5)
Other Income	156	38	313.8	38	314.9	284	187	52.3
Exceptional Items	-	(601)	n.m.	-	-	(14)	(604)	(97.6)
PBT	1,547	486	218.4	926	67.2	4,809	2,590	85.7
Tax	321	137	134.1	214	50.2	978	588	(66.3)
Reported PAT	1,226	349	251.6	712	72.2	3,831	2,002	91.4
Share of profit from Associate	17	12	44.9	56	(69.7)	118	95	25.2
Minority Interest	64	62	3.6	0	n.m.	113	132	(13.9)
Profit from discontinued Operations	3	(2)	n.m.	22	(85.3)	23	(5)	n.m.
PAT att. to shareholders	1,182	297	298.6	790	49.7	3,860	1,960	96.9
Adjustments	-	601	n.m.	-	-	14	604	(97.6)
Adj. PAT	1,182	898	31.7	790	49.7	3,874	2,565	51.1
No. of shares	101.2	101.2	-	101.2	(0.0)	101.2	101.2	-
Adj. EPS (Rs.)	11.7	8.9	31.7	7.8	49.8	38.3	25.3	51.1

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	21,203	-	21,708	23,028	2.4	-
EBITDA	4,942	-	5,989	6,351	21.2	-
Margins (%)	23.3	-	27.6	27.6	430bps	-
Adj. PAT	3,147	-	4,130	4,483	31.2	-
Adj. EPS	31.1	-	40.8	44.3	31.3	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	15,110	17,237	19,547	21,708	23,028
% change	4.9	14.1	13.4	11.1	6.1
EBITDA	3,364	3,860	5,384	5,989	6,351
% change	(1.5)	15.1	39.0	12.1	7.4
Depreciation	736	723	764	838	880
EBIT	2,628	3,137	4,620	5,150	5,470
Interest	127	130	81	47	12
Other Income	225	187	284	398	517
PBT	2,838	2,590	4,809	5,501	5,975
% change	18.3	(8.8)	85.7	14.4	8.6
Tax	512	588	978	1,375	1,494
Tax Rate (%)	18.0	22.7	20.3	25.0	25.0
Reported PAT	2,326	2,002	3,831	4,126	4,482
PAT att. to common shareholders	4,487	1,960	3,860	4,130	4,483
Adj*	(113)	604	14	-	-
Adj PAT	4,375	2,565	3,874	4,130	4,483
% change	87.1	(41.4)	51.1	6.6	8.5
No. of shares (cr)	102.4	101.2	101.2	101.2	101.2
Adj EPS (Rs.)	43.8	19.3	38.1	40.8	44.3
% change	87.1	(40.7)	51.1	6.6	8.5
DPS (Rs.)	2.5	6.0	3.0	3.2	3.5

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	3,063	2,725	4,596	4,964	5,362
Non-cash adj.	(131)	543	(574)	(1,393)	(1,847)
Changes in W.C	(828)	(579)	(794)	(1,255)	(1,016)
C.F. Operation	2,105	2,689	3,228	2,316	2,499
Capital exp.	(1,055)	(992)	(883)	(1,302)	(1,382)
Change in inv.	(5)	2,449	(721)	(290)	(350)
Other invest.CF	59	78	129	0	0
C.F - Investment	(1,000)	1,535	(1,475)	(1,592)	(1,731)
Issue of equity	-	-	-	-	-
Issue/repay debt	(385)	(4,007)	(1,117)	(50)	(50)
Dividends paid	(372)	(267)	(621)	(325)	(353)
Other finance.CF	(111)	(126)	(73)	(47)	(12)
C.F - Finance	(868)	(4,400)	(1,810)	(422)	(414)
Chg. in cash	236	(177)	(58)	302	353
Closing cash	658	488	413	715	1,068

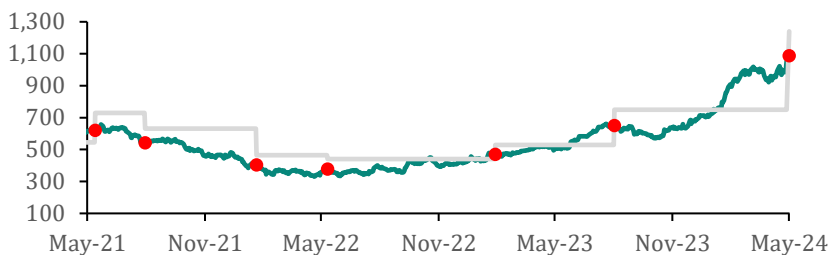
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	658	488	413	715	1,068
Accounts Receivable	3,340	4,417	5,220	5,861	6,448
Inventories	3,719	3,413	3,442	4,013	4,348
Other Cur. Assets	4,544	1,699	2,426	2,815	3,214
Investments	935	927	968	969	992
Gross Fixed Assets	7,512	8,503	9,386	10,688	12,070
Net Fixed Assets	5,762	5,697	5,803	5,768	5,769
CWIP	661	1,130	1,112	1,612	2,112
Intangible Assets	6,492	5,895	7,877	8,166	8,493
Def. Tax (Net)	1,096	1,262	1,644	2,888	3,585
Other Assets	589	829	375	396	418
Total Assets	27,795	25,756	29,281	33,202	36,446
Current Liabilities	3,997	4,356	4,563	4,420	3,605
Provisions	325	272	310	325	341
Debt Funds	4,221	1,195	804	754	704
Other Liabilities	199	246	1,503	1,675	1,504
Equity Capital	102	101	101	101	101
Reserves & Surplus	16,897	17,415	19,729	23,534	27,664
Shareholder's Fund	17,000	17,516	19,830	23,634	27,765
Minority Interest	2,054	2,173	2,272	2,394	2,526
Total Liabilities	27,795	25,756	29,281	33,202	36,446
BVPS (Rs.)	166	173	196	234	274

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	22.3	22.4	27.5	27.6	27.6
EBIT margin (%)	17.4	18.2	23.6	23.7	23.8
Net profit mgn.(%)	29.7	11.4	19.7	19.0	19.5
ROE (%)	13.7	11.4	19.3	17.5	16.1
ROCE (%)	11.3	15.0	20.2	19.2	17.6
W.C & Liquidity					
Receivables (days)	80.7	93.5	97.5	98.6	102.2
Inventory (days)	244.8	197.4	201.7	204.4	208.1
Payables (days)	140.7	122.9	124.6	106.1	95.2
Current ratio (x)	1.6	1.8	2.2	2.6	3.4
Quick ratio (x)	0.9	1.0	1.2	1.4	1.9
Turnover & Leverage					
Gross asset T.O (x)	2.1	2.2	2.2	2.2	2.0
Total asset T.O (x)	0.6	0.6	0.7	0.7	0.7
Int. coverage ratio (x)	20.7	24.2	56.9	109.7	463.6
Adj. debt/equity (x)	0.2	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.7	3.1	5.3	5.2	4.9
EV/EBITDA (x)	12.3	13.6	19.4	18.8	17.7
P/E (x)	8.0	25.5	26.4	26.7	24.6
P/BV (x)	2.1	2.8	5.1	4.7	4.0

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
9-Feb-21	BUY	545
2-Jun-21	BUY	730
19-Aug-21	BUY	632
9-Feb-22	BUY	465
31-May-22	BUY	440
17-Feb-23	ACCUMULATE	528
22-Aug-23	BUY	750
29-May-24	ACCUMULATE	1,196

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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