

# Zydu Lifesciences

## Outlook remains strong; investing for long-term drivers

EBITDA growth (+34% YoY\*) was in line with our/consensus estimates, given 20% YoY sales growth (-22% QoQ decline in the US sales +28% YoY, +9% YoY in India and +20% YoY in EMs) and higher GM (+564 bps YoY), partly offset by higher staff/R&D/SG&A costs (+17/ 31/ 49% YoY). The company retains its FY25 guidance of (1) high-teen sales growth, (2) healthy double-digit growth in the US, (3) India formulations beating IPM growth, (4) 100-200 bps YoY EBITDA margin expansion, and (5) 8% R&D (~7.6% in H1FY25). Focus on scaling up complex generics and specialty business in the US to create long-term growth drivers with visibility of key launches (gIbrance – Palbociclib; USD 3.15 bn; settled for launch, gAdempas – Riociguat; USD ~730 mn; partnered product) in FY27/28, two in-licensed (from Viwit Pharma) Gadolinium products for MRI (contrast agents; limited competition), injectables, transdermal, and few 505(b)(2) products. Factoring in higher tax rate guidance of 24-25%, we have tweaked our estimates. ADD stays with TP of INR 1,100 (26x Q3FY27E), given the broad thesis of steady growth (in US and India), steady EBITDA margin and monetization of R&D assets (injectables, biosimilar, NCE).

- Q2 highlights:** Sales grew 20% YoY at INR 52.3 bn as US sales (47% of sales) saw 22% QoQ decline to USD 288 mn (+28% YoY) on lower gRevlimid sales, which was partly offset by traction in gMyrbetriq and steady base business. India formulations (28%) were up 9% YoY to INR 14.5 bn led by growth in specialty brands, key therapies, and new launches. Wellness (10%) grew 12% YoY led by 8.4% volume growth. EMs/EU (11%) grew 20% YoY.
- EBITDA growth on higher sales and gross margin:** GM increased 564 bps YoY to 71.9%, higher staff/ R&D/ SG&A (+17/ 31/ 49% YoY) and adjusted for forex EBITDA stood at INR 14.19 bn (+34% YoY) and margin at 27.1% (+282 bps YoY). Higher interest cost (+189% YoY) and depreciation (+27%), and higher other income (+26%), led to reported PAT at INR 9.1 bn (+14% YoY). Adjusted for forex impact/one-offs, the PAT was at INR 8.8 bn (+20% YoY).
- Con call takeaways:** It expects US sales to see impact of generic competition in gAsacol HD from Q3FY25. gMyrbetriq sales saw a marginal uptick QoQ; it is expected to be meaningful product in FY25/26. gRevlimid sales will be episodic with traction in Q4FY25/Q1FY26 and taper off from Q4FY26. It expects few settlements based exclusive launches to drive growth from FY27 onwards. It expects injectable scale-up over next 2-3 years; scale-up in its 505(b)(2) products Zituvio/ Zituvimet in the US (through commercial channel in FY25/26 and participate in US govt tenders post FY26). Saroglitozar: under development; expects approval/ launch in H1CY27. Forayed into animal free fermentation-based protein business with a JV with Perfect Day; also CDMO arrangement for fermentation-based APIs; to start plant construction by Dec'24. In Oct'24, it received acceptability from the WHO typhoid vaccine ZyVac TCV; eligible for purchase by the UN agencies.

### Quarterly financial summary

(INR mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	52,370	43,688	20	62,075	(16)	1,72,374	1,95,474	2,26,877	2,37,654	2,46,892
EBITDA	14,191	10,608	34	21,073	(33)	35,550	52,979	65,806	67,256	61,229
APAT	8,810	7,356	20	14,379	(39)	23,200	37,790	44,335	45,699	41,525
EPS (INR)	8.8	7.3	20	14.3	(39)	23.1	37.6	44.1	45.4	41.3
P/E (x)						41.2	25.3	21.6	20.9	23.0
EV/EBITDA (x)						27.5	18.4	14.4	13.7	14.8
RoCE (%)						13	21	23	20	17

Source: Company, HSIE Research, PAT adjusted for one-offs, \* adjusted for forex impact

## ADD

CMP (as on 12 Nov 2024) INR 950

Target Price INR 1,100

NIFTY 23,883

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1100	INR 1100
	FY25E	FY26E
EPS %	(2.4)	(0.0)

### KEY STOCK DATA

Bloomberg code	ZYDUSLIF IN
No. of Shares (mn)	1,006
MCap (INR bn) / (\$ mn)	955/11,324
6m avg traded value (INR mn)	2,284
52 Week high / low	INR 1,324/614

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(24.0)	(3.3)	52.4
Relative (%)	(22.8)	(11.6)	31.8

### SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	74.98	74.98
FIs & Local MFs	12.64	10.65
FPIs	5.59	7.52
Public & Others	6.79	6.85
Pledged Shares	-	-

Source: BSE

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