

CMP: ₹ 970

Target: ₹ 1150(18%)

Target Period: 12 months

BUY

December 5, 2024

## Extended focus on niche / differentiated products...

About the stock: Zydus is a leading pharma company with a family pedigree having a presence in domestic branded formulations, US generics and is in the process of repurposing itself into niche areas of specialty pharmaceuticals, biosimilars and vaccines.

- Q2FY25 revenue break-up – US: 48%, India: 28%, Wellness: 9%, Europe & emerging markets including countries in LatAm, Asia Pacific & Africa: 11%
- Zydus is the fifth largest generic pharma company in US. Its 7 brands are among Top 300 pharma brands in India.

### Investment Rationale:

- Revenue grew ~20% YoY to ₹ 5237 crore, driven by US, International formulations and Consumer wellness. EBITDA grew ~33% YoY to ₹ 1416 crore on the back of strong GPM improvement (increased ~564 bps to 71.9%). EBITDA margins improved 269 bps to 27%. Adjusted PAT increased 19% to ₹ 879 crore. US Formulations grew 26% YoY to ₹ 3093 crore, driven by volume expansion and new launches (4 new launches) besides exclusivity in gMyrbetriq (overactive bladder management) and continued traction from gRevlimid (anti-cancer). International Formulations grew ~20% YoY to ₹ 539 crore driven by growth across key markets. India Formulations grew 10% YoY to ₹ 1457 crore, driven by power brands and new launches (12 new launches including line extension). Consumer Wellness business grew ~12% YoY to ₹ 488 crore, driven by personal care segment and gradual recovery in food & nutrition segment.
- Quality of earnings improving with a calibrated approach- The company over the years has invested significantly towards scaling up of capability for niche and differentiated products. Whether it is gRevlimid or gMyrbetriq in the US or Saroglitazar / Desidustat in India, the quest for differentiated products continues for the company. With R&D run-rate of 8% (~50% towards innovative products), we expect the momentum to continue even beyond FY26, with some important launches lined up in FY27/ FY28. We expect the launches that are planned are capable of filling the void created by waning momentum of earlier launches. We expect the core segments of the US and India to continue to maintain decent growth trajectory. Management's upbeat guidance for revenues and EBITDA stems from the confidence in specialty and differentiated launches in the pipeline. We see clear change in stance from the focus on number of launches to focus on quality and long-lasting products which is expected continue for a sizable future.

### Rating and Target price

- We have valued Zydus base business at ₹ 1123 i.e. 26x FY26E EPS of ₹ 43.2 and NPV of gRevlimid at ₹ 27 to a final value of ₹ 1150.

### Key Financial Summary

Key Financials (₹ crore)	FY21	FY22	FY23	3 year CAGR (FY17-22)	FY24	FY25E	FY26E	3 year CAGR (FY23-25E)
Revenues	14403.5	15265.2	17237.1	6.5	19547.4	22898.1	24897.5	13.0
EBITDA	3387.1	3340.7	3575.2	9.2	5303.3	6424.7	6871.5	24.3
EBITDA margins (%)	23.5	21.9	20.7		27.1	28.1	27.6	
Net Profit	2390.1	2149.2	2211.8	15.6	3782.6	4287.3	4417.9	25.9
EPS (₹)	23.3	21.0	21.6		37.0	41.9	43.2	
PE (x)	60.4	59.4	67.7		34.7	30.9	30.1	
EV to EBITDA (x)	40.4	40.7	37.4		25.0	20.5	18.2	
RoE (%)	18.4	12.6	12.6		19.1	19.6	17.2	
RoCE (%)	13.8	12.0	14.2		19.5	21.9	19.3	

Source: Company, ICICI Direct Research



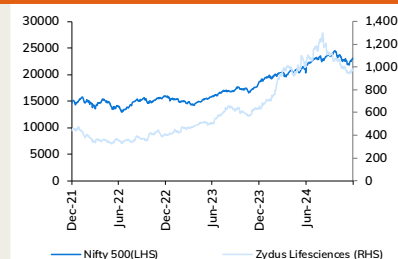
### Particulars

Particular	Amount
Market Capitalisation	₹98184 crore
Debt (FY24)	₹769 crore
Cash (FY24)	₹1105 crore
EV	₹97847 crore
52 week H/L	1324/630
Equity capital	₹101 crore
Face value	₹1

### Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	75.0	75.0	75.0	75.0
FII's	5.0	5.7	5.6	7.5
DII's	13.0	12.6	12.6	10.6
Others	7.1	6.8	6.9	6.9

### Price Chart



### Key risks

- Unforeseen delay in launches of niche products especially in the US.
- Higher R&D towards innovative products could yield lower returns.

### Research Analyst

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**Exhibit 1: Quarterly Summary**

(₹ Crore)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Sales	3639.8	3863.8	4072.7	4134.7	4362.3	5010.3	5139.6	4368.8	4505.2	5533.8	6207.5	5237.0	19.9	-15.6
Raw Material Expenses	1333.4	1495.8	1509.3	1594.4	1510.4	1696.0	1674.4	1473.8	1468.5	1611.5	1586.1	1471.4	-0.2	-7.2
% of revenue	36.6	38.7	37.1	38.6	34.6	33.9	32.6	33.7	32.6	29.1	25.6	28.1		
Gross Profit	2306.4	2368.0	2563.4	2540.3	2851.9	3314.3	3465.2	2895.0	3036.7	3922.3	4621.4	3765.6	30.1	-18.5
% of revenue	63.4	61.3	62.9	61.4	65.4	66.1	67.4	66.3	67.4	70.9	74.4	71.9	564 bps	-254 bps
Employee Expenses	591.2	599.8	681.0	671.7	689.0	723.9	730.4	752.9	817.3	837.0	883.5	879.2	16.8	-0.5
% of revenue	16.2	15.5	16.7	16.2	15.8	14.4	14.2	17.2	18.1	15.1	14.2	16.8		
Other Expenditure	963.6	1050.5	1049.4	1053.3	1206.9	1276.6	1202.4	1078.2	1137.6	1460.1	1628.7	1470.4	36.4	-9.7
% of revenue	26.5	27.2	25.8	25.5	27.7	25.5	23.4	24.7	25.3	26.4	26.2	28.1		
Total Expenditure	2888.2	3146.1	3239.7	3319.4	3406.3	3696.5	3607.2	3304.9	3423.4	3908.6	4098.3	3821.0	15.6	-6.8
% of revenue	79.4	81.4	79.5	80.3	78.1	73.8	70.2	75.6	76.0	70.6	66.0	73.0		
EBITDA	751.6	717.7	833.0	815.3	956.0	1313.8	1532.4	1063.9	1081.8	1625.2	2109.2	1416.0	33.1	-32.9
EBITDA Margins (%)	20.6	18.6	20.5	19.7	21.9	26.2	29.8	24.4	24.0	29.4	34.0	27.0	269 bps	-694 bps
Depreciation	177.0	185.4	180.7	181.8	181.6	178.6	179.8	184.2	194.8	205.3	215.3	233.6	26.8	8.5
Interest	31.1	38.5	34.3	35.1	32.8	27.7	18.1	8.7	19.8	34.6	32.2	25.1	188.5	-22.0
Other Income	60.7	79.1	65.9	44.4	38.5	37.8	36.0	54.0	37.7	156.4	63.2	68.2	26.3	7.9
Forex & EO	0.0	0.0	-2.9	0.0	0.0	-601.3	-14.2	0.0	0.0	0.0	0.0	0.0		
PBT	604.2	572.9	681.0	642.8	780.1	544.0	1356.3	925.0	904.9	1541.7	1924.9	1225.5	32.5	-36.3
Total Tax	109.4	109.2	118.4	137.0	195.2	137.2	216.1	226.4	213.8	321.2	436.1	373.1	64.8	-14.4
Tax rate (%)	18.1	19.1	17.4	21.3	25.0	25.2	15.9	24.5	23.6	20.8	22.7	30.4	24 bps	779 bps
PAT before MI	494.8	463.7	562.6	505.8	584.9	406.8	1140.2	698.6	691.1	1220.5	1488.8	852.4	22.0	-42.7
Minority Interest	10.2	55.9	58.1	3.6	8.3	61.6	46.7	2.5	0.3	63.8	62.6	9.0	260.0	-85.6
PAT	506.9	412.4	526.6	517.0	622.5	298.5	1087.9	801.7	767.8	1182.3	1419.9	911.2	13.7	-35.8
Adjusted PAT	506.9	412.4	529.0	517.0	622.5	771.8	1122.5	738.0	752.0	1180.6	1439.3	878.9	19.1	-38.9
Adjusted EPS (₹)	5.0	4.0	5.1	5.1	6.1	2.9	10.6	7.8	7.5	11.5	13.9	8.9		

Source: Company, ICICI Direct Research

## Q2FY25 Results / Conference call highlights

### US Portfolio

- In the US market, four new products were launched, eight ANDAs were filed, and nine ANDAs (including three tentative) were approved.
- The management expects competition in the market for Asacol HD (GI) in the coming quarters.
- In Q2FY25 gRevlimid sales was down and the management expects Q4FY25 to be better for gRevlimid.
- Recruitment for phase 2 and phase 3 trials for Saroglitazar Magnesium have been completed.
- The management expects FY26 to be meaningful year in terms of Sitagliptin as Zydus has a contract in place to supply Sitagliptin for 3 years to US Government.
- The management expects the launch of Palbociclib (ant-cancer) and Riociguat (Pulmonary hypertension treatment) to be a big opportunity for the US business in FY27.
- FY27 and FY28 launches will include transdermal products. As of now Zydus has eight filings in transdermal. Zydus has recently launched scopolamine transdermal patch and going forward they look to add twice weekly estradiol as well.
- Zydus initiated a Phase II proof of concept trial of Desidustat in partnership with the ICMR in patients with sickle cell disease.

### India Portfolio

- Consumer Wellness revenue was driven by volume growth in personal care and food and nutrition segments.
- Total 12 new products launched with four first in India.
- Zydus during the quarter acquired healthy snack category portfolio called Naturell. The entity had annual sales of ₹ 130 crore.

### Other aspects

- Net profit grew by 14% year-over-year, reaching ₹910 crore despite increased tax expenses due to certain one-off items.

- The management is expecting high-teens growth in topline revenue for FY25 (in line with the previous guidance), with momentum across all key segments.
- The EBITDA margin for FY25 is expected to be around 27%.
- The management guided the R&D expenses to remain approximately 8% of revenue for FY25.
- Effective tax rate is expected to normalize to around 24%-25%.
- Zydus during the quarter has announced its acquisition of a 50% stake in Sterling Biotech from Perfect Day Inc. Sterling is leading producers of Pharmaceutical Gelatine, Di-Calcium Phosphate and some APIs and has two manufacturing facilities in Gujarat. The Company also plans to establish a state of art manufacturing facility to manufacture fermented animal free protein to cater to the global markets. Zydus with this acquisition plans to take a plunge into specialised bio-tech products for health and nutrition and have access to advanced technology and capabilities in the production of gelatine. The transaction for 50% stake of sterling for Rs 550 crore valued the entire firm at around Rs 1100 crore. Sterling had clocked the revenue of Rs 455 crores during FY24 thus marking the deal at around 2.4 times FY24 sales.

## Financial Tables

Exhibit 4: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Revenues</b>	<b>17,237.1</b>	<b>19,547.4</b>	<b>22,898.1</b>	<b>24,897.5</b>
Growth (%)	12.9	13.4	17.1	8.7
Raw Material Expenses	6,310.1	6,228.2	6,596.3	7,693.5
Employee Expenses	2,765.6	3,137.6	3,685.6	3,734.6
Other expenses	4,586.2	4,878.3	6,191.6	6,597.8
Total Operating Expenditure	13,661.9	14,244.1	16,473.4	18,026.0
<b>EBITDA</b>	<b>3,575.2</b>	<b>5,303.3</b>	<b>6,424.7</b>	<b>6,871.5</b>
Growth (%)	7.0	48.3	21.1	7.0
Depreciation	722.7	764.1	956.9	1,241.4
Interest	129.9	81.2	64.8	64.8
Other Income	186.6	284.1	280.6	242.9
Less: Exceptional Items	604.2	14.2	0.0	0.0
<b>PBT after Exceptional Items</b>	<b>2,589.4</b>	<b>4,808.9</b>	<b>5,703.8</b>	<b>5,808.2</b>
Total Tax	587.8	977.5	1,391.8	1,394.0
Minority Interest	131.6	113.3	131.3	130.4
PAT	1,964.6	3,833.3	4,302.8	4,417.9
<b>Adjusted PAT</b>	<b>2,211.8</b>	<b>3,782.6</b>	<b>4,287.3</b>	<b>4,417.9</b>
Growth (%)	2.9	71.0	13.3	3.0
<b>EPS (Adjusted)</b>	<b>21.6</b>	<b>37.0</b>	<b>41.9</b>	<b>43.2</b>

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	1,990.7	3,552.3	4,302.8	4,417.9
Add: Depreciation	722.7	764.1	956.9	1,241.4
Net Increase in Current Assets	-261.9	-893.4	481.9	1,517.5
Net Increase in Current Liabilit	26.1	22.3	627.6	681.7
Other Operating Activities	211.2	-217.4	64.8	64.8
<b>CF from operating activities</b>	<b>2,688.8</b>	<b>3,227.9</b>	<b>6,434.0</b>	<b>7,923.3</b>
(Inc)/dec in Fixed Assets	-991.5	-882.9	-1,520.1	-1,000.0
Loan & Advances	0.0	0.0	-10.5	-34.7
(Inc)/dec in MI	0.0	0.0	57.9	130.4
Other Investing Activities	2,162.7	20.5	-1,481.7	7.6
<b>CF from investing activities</b>	<b>1,171.2</b>	<b>-862.4</b>	<b>-2,954.4</b>	<b>-896.7</b>
Inc/(dec) in loan funds	-4,007.1	-1,116.5	-618.6	0.0
Dividend paid & dividend tax	-267.1	-621.0	-511.9	-511.9
Inc/(dec) in forex reserve	0.0	0.0	0.0	0.0
Interest Paid	-126.2	-72.9	-64.8	-64.8
Other Financing Activities	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-4,400.4</b>	<b>-1,810.4</b>	<b>-1,195.3</b>	<b>-576.7</b>
<b>Net Cash flow</b>	<b>-533.8</b>	<b>532.0</b>	<b>488.5</b>	<b>6,449.9</b>
Opening Cash	1,106.9	573.1	1,105.1	1,593.6
<b>Closing Cash</b>	<b>573.1</b>	<b>1,105.1</b>	<b>1,593.6</b>	<b>8,043.6</b>
<b>Free Cash Flow</b>	<b>1,697.3</b>	<b>2,345.0</b>	<b>4,913.9</b>	<b>6,923.3</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	101.2	100.6	100.6	100.6
Reserve and Surplus	17,414.6	19,728.9	21,724.0	25,630.1
Total Shareholders funds	17,515.8	19,829.5	21,824.6	25,730.7
Total Debt	1,163.2	768.6	150.0	150.0
Deferred Tax Liability	194.4	446.5	442.8	482.7
Minority Interest	2,172.5	2,272.1	2,330.0	2,460.4
Other Non Curr.Liab. & LTP	343.0	1,389.0	1,495.8	1,630.4
<b>Total Liabilities</b>	<b>21,388.9</b>	<b>24,705.7</b>	<b>26,243.2</b>	<b>30,454.1</b>
Gross Block - Fixed Assets	12,961.8	15,353.2	16,933.7	17,733.7
Less: Acc Depreciation	6,174.8	6,938.9	7,895.8	9,137.2
Net Block	6,787.0	8,414.3	9,037.9	8,596.5
Capital WIP	1,130.2	1,111.5	1,051.1	1,251.1
Total Fixed Assets	7,917.2	9,525.8	10,089.0	9,847.6
Goodwill on Consolidation	4,804.4	5,266.0	5,266.0	5,266.0
Investment	1,548.6	1,220.5	2,595.9	2,595.9
Inventory	3,413.3	3,441.9	3,716.9	4,742.6
Debtors	4,416.8	5,220.2	4,669.5	2,011.5
Other Current Assets	993.9	1,481.7	1,275.5	1,390.3
Cash	573.1	1,105.1	1,593.6	8,043.6
Total Current Assets	9,397.1	11,248.9	11,255.5	16,188.0
Creditors	2,125.0	2,126.7	2,126.8	2,634.8
Provisions	365.4	394.8	498.1	542.9
Other Current Liabilities	1,877.1	2,053.6	2,577.8	2,706.7
Total Current Liabilities	4,367.5	4,575.1	5,202.7	5,884.4
Deferred Tax Assets	1,262.4	1,644.2	1,853.6	2,020.4
Net Current Assets	5,029.6	6,673.8	6,052.8	10,303.6
Long term Loans and advances	826.7	375.4	385.9	420.6
<b>Application of Funds</b>	<b>21,388.9</b>	<b>24,705.7</b>	<b>26,243.2</b>	<b>30,454.2</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
Adjusted EPS	21.6	37.0	41.9	43.2
BV per share	171.1	193.7	213.2	251.3
Dividend per share	6.0	3.0	5.0	5.0
Cash Per Share	5.6	10.8	15.6	80.3
<b>Operating Ratios (%)</b>				
Gross Profit Margins	63.4	68.1	71.2	69.1
EBITDA margins	20.7	27.1	28.1	27.6
Net Profit margins	12.8	19.4	18.7	17.7
Inventory days	197	202	206	225
Debtor days	94	97	74	29
Creditor days	123	125	118	125
Asset Turnover	1.3	1.3	1.4	1.4
EBITDA Conversion Ratio	75.2	60.9	100.1	115.3
<b>Return Ratios (%)</b>				
RoE	12.6	19.1	19.6	17.2
RoCE	14.2	19.5	21.9	19.3
RoIC	14.5	20.2	23.2	26.9
<b>Valuation Ratios (x)</b>				
P/E	50.5	25.9	23.1	22.5
EV / EBITDA	27.9	18.7	15.2	13.3
EV / Net Sales	5.8	5.1	4.3	3.7
Market Cap / Sales	5.8	5.1	4.3	4.0
Price to Book Value	5.7	5.0	4.5	3.9
<b>Solvency Ratios</b>				
Debt / EBITDA	0.3	0.1	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	2.0	2.2	1.9	1.4
Quick Ratio	1.2	1.5	1.1	0.6
Working Capital Cycle	168	175	162	129
Net Debt	590.1	-336.5	-1,443.6	-8,073.6
Redeption	-2,499.0	-926.6	-1,107.1	-6,630.0
Net debt to Equity	0.0	0.0	-0.1	-0.3

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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