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Q3FY23 result review
and reco change

Pharmaceuticals

Target price: Rs482

Earnings revision

(%)	FY24E	FY25E
Sales	5.7	4.5
EPS	14.8	8.7

Target price revision

Rs482 from Rs448

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	74.9	75.0	75.0
Institutional investors	14.8	15.3	16.0
MFs and others	4.6	5.4	5.6
FIs and Banks	7.3	7.3	7.9
FIIIs	2.9	2.6	2.5
Others	10.3	9.7	9.0

Source: NSE India

ESG disclosure score

Year	2020	2021	Chg
ESG score	41.2	37.5	(3.7)
Environment	1.8	1.8	-
Social	36.9	25.7	(11.2)
Governance	84.7	84.7	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA



Zydus Lifesciences

ADD

Upgrade from *Hold*

Beats expectations; US launches to support growth Rs434

Zydus Lifesciences' (Zydus) reported Q3FY23 performance exceeded our estimates on all fronts. Revenues grew 19.4% YoY to Rs43.6bn (I-Sec: Rs40.7bn) driven by India and US markets. US sales were up 9.8% QoQ to US\$235mn led by volume expansion in the base portfolio, seasonality and new product launches. *Revlimid* sales were similar to Q2 levels. India business reported healthy growth of 14.2% YoY driven by improved market share in key therapies. EBITDA margin expanded by 130bps YoY (+200bps QoQ) to 21.9%. Adjusted PAT was up 24.5% YoY (+3.6% QoQ) to Rs6.3bn. Successful launch of *Revlimid*, clearance of Moraiya plant and attractive transdermal opportunities should support near-term growth. At 17.9x FY25E EPS, the stock trades at reasonable valuations in our view, hence we upgrade it to **ADD** (from *Hold*) with a revised target price of Rs482/share (earlier: Rs448).

- **Business review:** India revenues grew 14.2% YoY on a reported basis, but were up 16% (ex-covid portfolio) mainly driven by market share gains in key therapies. US sales rose 9.8% QoQ to US\$235mn led by volume expansion in the base portfolio and seasonality. Clearance of Moraiya plant paves the way for approval and launches of transdermal products as well as injectables and other high-value products providing impetus to near-term growth, in our view. Consumer wellness sales grew 7.8% YoY. API sales were up 14% YoY. Gross margin expanded by 170bps YoY (+130bps QoQ) to 63.7% due to favourable product mix. Subsequently, EBITDA margin was up 130bps YoY (+200bps QoQ) to 21.9%. We expect margins to remain stable at ~21% over FY23E-FY25E.
- **Key concall highlights:** **1) US:** i) *Revlimid* is expected to contribute meaningfully in Q4FY23; ii) Two or three transdermal products are expected to be launched from the Moraiya plant in FY24 and are likely to be meaningful opportunities iii) For *Asacol HD*, the company does not see any competition yet in Q4FY23. **2) Consumer wellness:** Price increases have been taken to counter inflationary pressures (the benefit will be seen in Q4FY23). **3) Guidance:** i) R&D spend to remain at 8-9% of sales in the near term. ii) Expect EBITDA margins at ~21% in FY23 and witness further improvement from these levels in FY24.
- **Outlook:** We expect revenue / EBITDA / PAT CAGRs of 8.4% / 4.7% / 2% over FY22-FY25E on a high base and elevated costs, which would restrict margins. Company has reduced its debt through divestment of its animal health business and will further strengthen the balance sheet with ~Rs69bn of FCF generation over FY23E-FY25E.
- **Valuations and risks:** We increase our revenue estimates (including *Revlimid*) by ~5-6% and earnings estimates by ~9-15% over FY24E-FY25E to factor-in the potential transdermal launches and improvement in product mix. At the current price, we believe the stock trades at a reasonable valuation, hence we upgrade it to **ADD** (from *Hold*) with a revised target price of Rs482/share based on 20x Sep'24E EPS (earlier: Rs448/share). **Key downside risks:** Competition in the US and regulatory hurdles.

Market Cap	Rs440bn/US\$5.4bn
Reuters/Bloomberg	ZYDUSLIF IN
Shares Outstanding (mn)	1,012.2
52-week Range (Rs)	457/330
Free Float (%)	25.0
FII (%)	2.5
Daily Volume (USD/'000)	6,759
Absolute Return 3m (%)	(0.9)
Absolute Return 12m (%)	7.4
Sensex Return 3m (%)	0.1
Sensex Return 12m (%)	4.8

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	1,52,652	1,69,209	1,84,891	1,94,626
Net Income (Rs mn)	22,813	22,725	24,230	24,571
EPS (Rs)	22.8	21.7	23.9	24.3
% Chg YoY	10.7	(5.1)	10.4	1.4
P/E (x)	19.0	20.0	18.1	17.9
CEPS (Rs)	29.6	29.6	32.2	33.1
EV/E (x)	12.7	12.4	10.7	9.9
Dividend Yield (%)	0.8	0.6	0.6	0.6
RoCE (%)	11.0	9.5	9.7	9.0
RoE (%)	15.4	12.4	12.5	11.4

Please refer to important disclosures at the end of this report

Table 1: Q3FY23 performance*(Rs mn, year ending March 31)*

	Q3FY23	Q3FY22	YoY % Chg	Q2FY23	QoQ % Chg
Net Sales	43,623	36,550	19.4	40,053	8.9
EBITDA	9,560	7,525	27.0	7,962	20.1
Other income	385	608	(36.7)	357	7.8
PBIDT	9,945	8,133	22.3	8,319	19.5
Depreciation	1,816	1,832	(0.9)	1,818	(0.1)
Interest	328	311	5.5	351	(6.6)
Exceptional / Forex items	-	-	-	278	-
PBT	7,801	5,990	30.2	6,428	21.4
Tax	1,952	1,107	76.3	1,370	42.5
Minority Interest	83	102	(18.6)	36	130.6
Share of profit in associates	463	223	107.6	203	128.1
Reported PAT	6,229	5,004	24.5	5,225	19.2
Adjusted PAT	6,229	5,004	24.5	6,010	3.6
EBITDA margins (%)	21.9	20.6	130bps	19.9	200bps

Source: Company data, I-Sec research

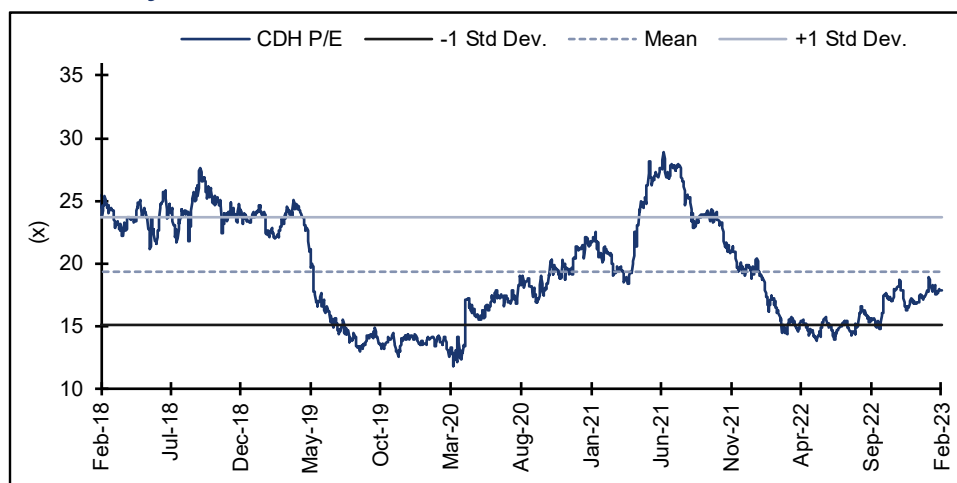
Table 2: Sales mix*(Rs mn, year ending March 31)*

	Q3FY23	Q3FY22	YoY % Chg	Q2FY23	QoQ % Chg
US Formulations	19,250	14,892	29.3	17,084	12.7
India Formulations	12,316	10,785	14.2	12,648	(2.6)
Emerging Markets Formulations	3,078	2,914	5.6	3,308	(7.0)
Europe Formulations	705	680	3.7	541	30.3
Consumer Wellness	4,120	3,822	7.8	4,227	(2.5)
APIs	1,881	1,650	14.0	1,117	68.4
JVs and Alliances	248	560	(55.7)	502	(50.6)
Other Op. Income	2,025	1,106	83.1	627	223.0
Net Sales	43,623	36,409	19.8	40,054	8.9

Source: Company data, I-Sec research

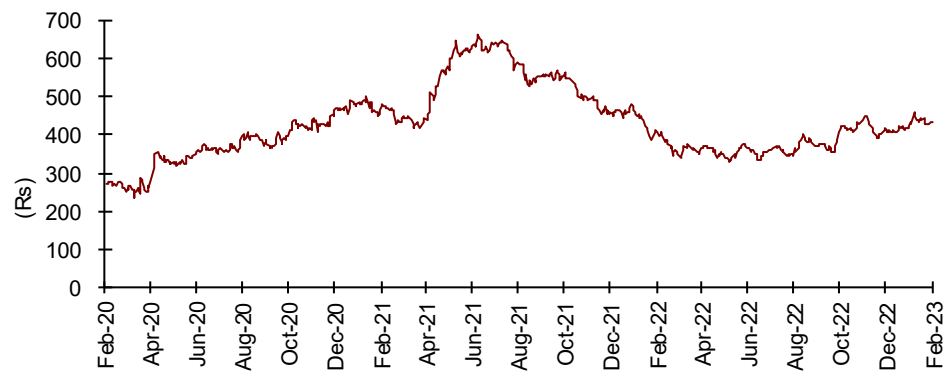
Valuations

The stock currently trades at P/E of 18.1x FY24E and 17.9x FY25E, and EV/EBITDA of 10.8x FY24E and 10x FY25E. Ramp-up in transdermal products, injectables and high-value launches would facilitate sales pick-up from FY24E. We believe the stock is currently trading at reasonable valuations, hence we upgrade it to **ADD** (from **Hold**), with a revised target price of Rs482/share based on 20x Sep'24E EPS (earlier: Rs448/share).

Chart 1: 1-year forward P/E

Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary (consolidated)

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
India	48,125	48,332	52,199	56,375
US	58,138	72,187	80,427	81,824
Europe	2,523	2,523	2,649	2,782
ROW	11,921	12,755	13,776	14,878
Total formulations	1,20,70	1,35,79	1,49,05	1,55,85
	7	8	0	8
Consumer Wellness	19,788	22,293	24,969	27,965
Animal health	-	-	-	-
APIs	5,702	5,702	6,044	6,407
JV & Alliances	2,079	1,767	1,909	2,061
Other op. income	4,376	3,649	2,919	2,335
Total Gross Sales	1,52,652	1,69,209	1,84,891	1,94,626
Excise	-	-	-	-
Total Net Revenue	1,52,652	1,69,209	1,84,891	1,94,626
YoY Growth%	1.1	10.8	9.3	5.3
Total Op. Exp.	1,17,413	1,33,773	1,45,486	1,54,217
EBITDA	35,239	35,437	39,405	40,409
Margins %	23.1	20.9	21.3	20.8
YoY Growth%	5.3	0.6	11.2	2.5
Depreciation	7,130	7,262	8,395	8,891
EBIT	28,109	28,174	31,009	31,518
Other Income	2,247	1,829	1,939	2,055
Interest	1,270	1,342	1,257	1,257
EO Items	-308	968	0	0
PBT	28,778	29,630	31,691	32,316
Tax	5,117	5,926	6,338	6,463
Tax Rate (%)	17.8	20.0	20.0	20.0
Minority Interest	848	979	1,123	1,282
Reported PAT	22,813	22,725	24,230	24,571
Adj. PAT	23,121	21,950	24,230	24,571
Net Margins (%)	15.1	13.0	13.1	12.6

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Paid-up Capital	1,024	1,012	1,012	1,012
Reserves & Surplus	1,68,972	1,81,677	2,03,376	2,25,415
Total Equity	1,69,996	1,82,689	2,04,388	2,26,428
Minority Interest	20,542	21,983	23,568	25,312
Total Debt	41,960	36,960	36,960	36,960
Deferred Liabilities	-9,420	-9,420	-9,420	-9,420
Capital Employed	2,23,078	2,32,212	2,55,496	2,79,280
Current Liabilities	43,918	49,262	53,536	56,762
Total Liabilities	2,66,996	2,81,474	3,09,033	3,36,041
Net Fixed Assets	1,32,887	1,33,625	1,33,229	1,32,338
Investments	5,605	6,213	6,789	7,146
Inventory	37,194	42,376	46,087	48,853
Debtors	33,403	37,026	40,457	42,588
Other Current Assets	27,797	29,422	30,961	31,916
Cash and Equivalents	30,110	32,812	51,510	73,201
Total Cur. Assets	1,34,109	1,47,849	1,75,803	2,03,703
Total Assets	2,66,996	2,81,474	3,09,033	3,36,041

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
PBT (Adj. for Extraordinary)	52,323	30,092	32,153	32,778
Depreciation	7,361	7,262	8,395	8,891
Net Chg in WC	(8,275)	(5,893)	(5,169)	(3,100)
Taxes	(6,746)	(5,926)	(6,338)	(6,463)
Others	(23,622)	2,148	2,020	1,731
CFO	21,041	27,683	31,061	33,837
Capex	18,040	(8,000)	(8,000)	(8,000)
Net Investments made	(7,086)	(608)	(576)	(357)
Others	590	-	-	-
CFI	11,544	(8,608)	(8,576)	(8,357)
Change in Share capital	-	(7,500)	-	-
Change in Debts	(3,850)	(5,000)	-	-
Div. & Div Tax	(3,722)	(2,531)	(2,531)	(2,531)
Others	(25,087)	(1,342)	(1,257)	(1,257)
CFF	(32,659)	(16,373)	(3,788)	(3,788)
Total Cash Generated	(74)	2,702	18,697	21,691
Cash Opening Balance	6,652	6,578	9,280	27,978
Cash Closing Balance	6,578	9,280	27,978	49,669

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Adj EPS	22.8	21.7	23.9	24.3
YoY Growth%	10.7	(5.1)	10.4	1.4
Cash EPS	29.6	29.6	32.2	33.1
EBITDA - Core (%)	23.1	20.9	21.3	20.8
NPM (%)	15.1	13.0	13.1	12.6
Net Debt to Equity (x)	0.0	(0.0)	(0.1)	(0.2)
P/E (x)	19.0	20.0	18.1	17.9
EV/EBITDA Core (x)	12.7	12.4	10.7	9.9
P/BV (x)	2.6	2.4	2.1	1.9
EV/Sales (x)	2.9	2.6	2.3	2.0
RoCE (%)	11.0	9.5	9.7	9.0
RoE (%)	15.4	12.4	12.5	11.4
RoIC (%)	11.8	10.6	11.3	11.3
Book Value (Rs)	168	180	202	224
DPS (Rs)	3.7	2.5	2.5	2.5
Dividend Payout (%)	16.3	11.1	10.4	10.3
Div Yield (%)	0.8	0.6	0.6	0.6
Asset Turnover Ratio	1.1	1.3	0.6	0.6
Avg Collection days	77	76	76	78
Avg Inventory days	83	86	87	89

Source: Company data, I-Sec research

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