Zydus Lifesciences

19 May 2023

Strong revenue growth across business segments

RESULT UPDATE

Sector: Pharmaceuticals	**Rating: BUY**
CMP: Rs 507	**Target Price: Rs 593**

Stock Info

Sensex/Nifty	61,432/18,130
Bloomberg	ZYDUSLIF IN
Equity shares	1,012mn
52-wk High/Low	Rs 531/330
Face value	Rs 1
M-Cap	Rs 513bn/ USD 6.3bn

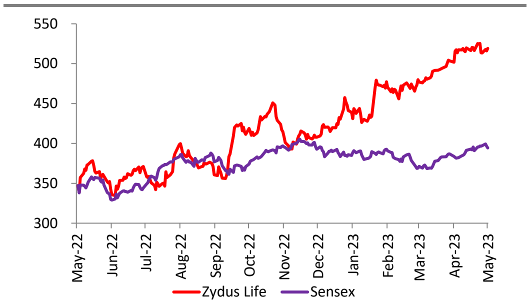
Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
Sales	1,75,803	1,94,036	2,00,588
Gross profit	1,12,702	1,29,040	1,33,536
Gross Margin %	64.1%	66.5%	66.6%
EBITDA	38,599	42,767	43,740
Margin %	22.0%	22.0%	21.8%
PAT	19,603	27,217	29,026
EPS	25.4	26.5	28.2
DPS(Rs)	3.9	5.3	5.6
ROE(%)	14.9	14.6	13.9
P/E(x)	20.0	19.1	18.0
EV/EBITDA (x)	13.5	11.8	11.2

Shareholding pattern (%)

	Sep-22	Dec-22	Mar-23
Promoter	74.98	74.98	74.98
–Pledged	-	-	-
FII	2.60	2.51	3.42
DII	12.93	13.70	13.60
Others	9.49	8.81	8.00

Stock Performance (1-year)



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Zydus Lifesciences (ZYDUSLIF) reported better than expected performance as adjusted PAT at Rs 8,979mn (+71% YoY) was 4.8%/29.3% above our/consensus estimate. The strong performance was led by core businesses – India and US formulations. The US business benefited from one-time new business opportunities and ramp-up in new launches – gRevlimid and gTrokendi XR. Elevated R&D spend on account of ongoing clinical trials for NCE assets diluted the favorable impact of strong revenue performance during the quarter. Management has guided for a strong 1QFY24 with gRevlimid sales remaining elevated. We retain our "BUY" rating on ZYDUSLIF with a revised price target of Rs. 593 which is based on 21x FY25E EPS. We have revised our estimates as we build a higher contribution from gRevlimid and also incorporate recent approval of gVascepa and expected launch of two REMS products in our forecasts. ZYDUSLIF has also filed its Typhoid Conjugate vaccine (TCV) for WHO prequalification. Successful approval should open up a large market opportunity for the company. According to WHO, the demand for TCV can be in the range of 43mn doses pa to 163mn doses which indicates a potential market opportunity of USD 60mn to USD 240mn annually. Currently, there are two players who have received WHO prequalification for TCV. ZYDUSLIF is looking to file its Measles Rubella vaccine in FY24.

In FY23, ZYDUSLIF received 63 US FDA approvals in the US which has been one of the highest in the history of the company. The US business should continue to benefit from multiple launches, while the timing of generic competition for Asacol HD remains uncertain. The company expects to launch gVascepa, three transdermal patches and two REMS products in FY24. Management has guided mid-single digit revenue growth in the US business in FY24 while assuming additional competition in Asacol HD. Over the long-run, ZYDUSLIF will look at launching its specialty portfolio (NCEs) and scaling up its injectables business in the US. The company is targeting US launch of Saroglitazar in CY26. India business reported robust 10.8% YoY growth (12% ex-Covid) with growth in its specialty and biosimilar portfolio. On ex-COVID basis, Emerging Markets (EM) and Europe (EU) business grew at 34% YoY. ZYDUSLIF has net cash of Rs 5,461mn and the position should significantly strengthen as earnings growth performance will continue to be robust. The company is looking at acquisitions in India, US and Europe to strengthen its business. We substantiate our confidence on ZYDUSLIF's ability to grow further as follows – 1) ZYDUSLIF has a differentiated portfolio in the fiercely competitive US market, 2) India business remains on a good footing, with NCE/biosimilar brands starting to enter the Top 10 brands of ZYDUSLIF, 3) Wide portfolio of biosimilars in emerging markets.

India – Branded formulation growth continues to surprise

ZYDUSLIF's India branded formulations business grew at 10.8% YoY (12% ex-Covid). We believe there has been a structural shift in ZYDUSLIF's India business which was earlier lagging the Indian Pharmaceutical Market (IPM). In the recent past, ZYDUSLIF ramped up its new fast-growing brands, Lipaglyn, Vivitra and Bryxta, which already rank among its top 10 brands. We believe ZYDUSLIF would continue to grow at least in line with IPM. Management expects to grow at the IPM growth rate of 9-12% in FY24 if not outpace it. ZYDUSLIF's India branded business could have grown by 200bps higher if not for the impact of NLEM price revisions.

US – Moving up the value chain

ZYDUSLIF's US business is backed by a promising pipeline that would enable it to expand its existing revenue base (FY23 revenue – USD 926mn). Limited launches like gRevlimid and gTrokendi XR will likely continue to ramp up and boost the near-term business, supported by launch of two REMS products and its transdermal portfolio (likely sticky in the base for the next 2-3 years), inlicensed complex generics (20 products), 505(b)(2) filings, along with additional launches in the mesalamine category (gPentasa and gDelzicol). The company is annually launching around 25-30 ANDAs. Potential favorable outcomes from its ongoing investments in NCE (Saroglitazar and Desidustat) and Orphan Drug portfolio (CUTX 101) represent free call options. ZYDUSLIF is targeting to launch Saroglitazar in CY26 and expects to be the third or fourth player in the market.

4QFY23 earnings highlights

ZYDUSLIF's revenue at Rs 50,106 mn was up 29.7% YoY and 14.9% QoQ. EBITDA at Rs 12,556 mn surged 74.9% YoY and 31.3% QoQ. EBITDA margin at 25.1% rose 648 bps YoY and 314 bps QoQ. PAT stood at Rs 2,966 mn, down 25.4% YoY and 52.4% QoQ. PAT margin at 5.9% was down 437 bps YoY and 836 bps QoQ. Exceptional item worth Rs 6,013mn recorded in 4QFY23 includes impairment of goodwill relating to Sentynl. Adjusted for this exceptional item, ZYDUSLIF's adjusted PAT was Rs 8,979mn.

US formulations business reported sales of Rs 22,525 mn (USD 275mn), up 58.3% YoY and 17% QoQ. Ramp-up in the US business was led by new launches – gTrokendi XR and gRevlimid. The company also capitalized on some one-time opportunities in specific molecules.

India formulations business revenue at Rs 12,896 mn rose 10.8% YoY and 4.7% QoQ. Excluding Covid related sales, ZYDUSLIF's India business grew by 12% YoY.

Emerging market (EM) and Europe (EU) markets business generated revenue of Rs 4,393 mn, up 29.9% YoY and 16.1% QoQ. The EM and EU markets business has grown in double digits (34% YoY) on ex-COVID basis. ZYDUSLIF delivered a good performance across geographies and expects strong double digit growth to continue in EM and EU markets.

Consumer Wellness business reported sales of Rs 7,075 mn, up 11.8% YoY and 71.7% QoQ. The company benefited from reduction in key input prices except milk and from price increases. The company expects rural demand to have bottomed out and should recover from hereon. ZYDUSLIF has gained market share in key brands viz. Glucon-D, Nycil and EverYuth (Scrub and Peel-Off).

API business reported revenue of Rs 1,251 mn, down 8.2% YoY and 33.5% QoQ.

Alliances business segment saw revenue plunge to Rs 385 mn, down 17.9% YoY but up 55.2% QoQ.

4QFY23 earnings call highlights

- **Vaccine:** ZYDUSLIF has received WHO prequalification for TCV vaccine and will file its MR vaccine in FY24.

- **R&D expenses:** R&D expenses is expected to be around 8-8.5% of sales. A large part of incremental R&D investments will be used for developing NCEs for global markets. These investments will be used for clinical program spending – first for Saroglitazar and later for ZYIL1. Major R&D investments are expected in CY25 for launch of Saroglitazar in the US in CY26.

- **US:** ZYDUSLIF is seeing one-time opportunities in the US market. These opportunities are sizable in nature and last for around a month. It will launch three new critical products in FY24. Management expects mid-single digit growth even if Asacol HD faces price erosion in the US. ZYDUSLIF is preparing to launch gVascepa and believes it will have enough material to capture good market share. It is planning to launch 3 transdermal products from 2QFY24 onwards from Moraiya facility. The company also has two REMS products, gVascepa and five other programs in pipeline. The company expects mid-single digit price erosion in the US. ZYDUSLIF believes that Revlimid revenues will continue in 1QFY23 and will increase for the next two years.

- **Cash Deployment:** ZYDUSLIF is looking for opportunities to buy out specialty assets in the US, strong brands in India and may even invest in certain assets in Europe.

Exhibit 1: Quarterly Performance

Particulars (Rs mn)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
Total Revenue	**38,638**	**43,623**	**50,106**	***29.7***	***14.9***	**1,53,582**	**1,75,803**	***14.5***
Cost of Revenues	14,958	15,104	16,960	*13.4*	*12.3*	56,002	63,101	*12.7*
% of revenue	*40.0*	*36.3*	*35.0*	*(502) bps*	*(136) bps*	*37.6*	*37.4*	*(22) bps*
Staff Costs	5,998	6,890	7,239	*20.7*	*5.1*	24,872	27,656	*11.2*
% of revenue	*16.0*	*16.6*	*14.9*	*(111) bps*	*(165) bps*	*16.7*	*16.4*	*(32) bps*
R&D expenses	*2,697*	*3,435*	*3,541*	*31.3*	*3.1*	10,137	12,352	*21.9*
% of revenue	*7.0*	*7.9*	*7.1*	*9 bps*	*(81) bps*	*6.6*	*7.0*	*43 bps*
Other Expenses	10,505	12,069	13,351	*27.1*	*10.6*	39,776	46,447	*16.8*
% of revenue	*28.1*	*29.0*	*27.5*	*(56) bps*	*(150) bps*	*26.7*	*27.5*	*81 bps*
EBITDA	**7,177**	**9,560**	**12,556**	***74.9***	***31.3***	**32,932**	**38,599**	***17.2***
EBITDA Margin	***18.6***	***21.9***	***25.1***	***648 bps***	***314 bps***	***21.4***	***22.0***	***51 bps***
Other Income	791	385	378	*(52.2)*	*(1.8)*	2,248	1,866	*(17.0)*
Interest	385	328	277	*(28.1)*	*(15.5)*	1,270	1,299	*2.3*
Depreciation	1,854	1,816	1,786	*(3.7)*	*(1.7)*	7,361	7,227	*(1.8)*
Profit Before Tax	**5,729**	**7,801**	**10,871**	***89.8***	***39.4***	**26,549**	**31,939**	***20.3***
Exceptional Item	0	0	-6,013	*NA*	*NA*	-957	-6,042	*NA*
Share of profit in JV	46	459	118	*156.5*	*(74.3)*	462	946	*104.8*
Tax	1,092	1,952	1,372	*25.6*	*(29.7)*	4,682	5,878	*25.5*
Tax Rate (%)	*19.1*	*25.0*	*12.6*	*(644) bps*	*(1240) bps*	*17.6*	*18.4*	*77 bps*
Minority Interest	559	83	616	*10.2*	*642.2*	-1,310	-1,316	*0.5*
Loss before tax from discontinued operations	124	-6	26	*(79.0)*	*NA*	23,942	-70	*NA*
Tax expense of discontinued operations	26	2	-4	*NA*	*NA*	-1,485	24	*NA*
Profit After Tax	**3,974**	**6,229**	**2,966**	***(25.4)***	***(52.4)***	**42,519**	**19,603**	***(53.9)***
Profit Margin	***10.3***	***14.3***	***5.9***	***(437) bps***	***(836) bps***	***27.7***	***11.2***	***(1653) bps***

Source: Company, Systematix Institutional Research

Exhibit 2: Revenue break up

Particulars (Rs mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
US Formulations	15,089	14,510	14,980	15,040	14,233	15,592	17,084	19,250	22,525	58.3	17.0
India Formulations	10,232	13,570	12,130	10,790	11,640	11,251	12,648	12,316	12,896	10.8	4.7
EM and EU	3,125	3,370	4,100	3,590	3,383	3,769	3,849	3,783	4,393	29.9	16.1
Formulations	**28,446**	**31,450**	**31,210**	**29,420**	**29,256**	**30,612**	**33,581**	**35,349**	**39,814**	**36.1**	**12.6**
Consumer Wellness	5,984	5,860	3,770	3,820	6,330	6,916	4,227	4,120	7,075	11.8	71.7
Animal Health	1,501	0	0	0	0	0	0	0	0	NA	NA
API	1,395	1,360	1,340	1,650	1,363	1,224	1,117	1,881	1,251	-8.2	-33.5
Alliances	236	510	550	560	469	477	502	248	385	-17.9	55.2
Total sales*	**37,562**	**39,180**	**36,870**	**35,450**	**37,418**	**39,229**	**39,427**	**41,598**	**48,525**	**29.7**	**16.7**

*Source: Company, Systematix Institutional Research; *Excludes other operating income*

Exhibit 3: Revenue mix (%)

Particulars (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
US Formulations	40.2	37.0	40.6	42.4	38.0	39.7	43.3	46.3	46.4
India Formulations	27.2	34.6	32.9	30.4	31.1	28.7	32.1	29.6	26.6
EM and EU	8.3	8.6	11.1	10.1	9.0	9.6	9.8	9.1	9.1
Formulations	**75.7**	**80.3**	**84.6**	**83.0**	**78.2**	**78.0**	**85.2**	**85.0**	**82.0**
Consumer Wellness	15.9	15.0	10.2	10.8	16.9	17.6	10.7	9.9	14.6
Animal Health	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
API	3.7	3.5	3.6	4.7	3.6	3.1	2.8	4.5	2.6

Source: Company, Systematix Institutional Research

Exhibit 4: QoQ growth (%)

Particulars (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
US Formulations	(5.9)	(3.8)	3.2	0.4	(5.4)	9.5	9.6	12.7	17.0
India Formulations	(7.3)	32.6	(10.6)	(11.0)	7.9	(3.3)	12.4	(2.6)	4.7
EM and EU	(11.9)	7.8	21.7	(12.4)	(5.8)	11.4	2.1	(1.7)	16.1
Formulations	**(7.1)**	**10.6**	**(0.8)**	**(5.7)**	**(0.6)**	**4.6**	**9.7**	**5.3**	**12.6**
Consumer Wellness	59.3	(2.1)	(35.7)	1.3	65.7	9.3	(38.9)	(2.5)	71.7
Animal Health	(8.1)	NA	NA	NA	NA	NA	NA	NA	NA
API	5.7	(2.5)	(1.5)	23.1	(17.4)	(10.2)	(8.7)	68.4	(33.5)
Total sales*	**11.8**	**116.1**	**7.8**	**1.8**	**(16.3)**	**1.7**	**5.2**	**(50.6)**	**55.2**

*Source: Company, Systematix Institutional Research; *Excludes other operating income*

Exhibit 5: YoY growth (%)

Particulars (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
US Formulations	(14.3)	(10.6)	(12.3)	(6.2)	(5.7)	7.5	14.0	28.0	58.3
India Formulations	14.7	63.7	11.6	(2.2)	13.8	(17.1)	4.3	14.1	10.8
EM and EU	45.5	16.6	47.8	(0.8)	10.0	13.9	(5.2)	5.8	29.9
Formulations	**(1.3)**	**14.8**	**1.1**	**(3.9)**	**2.8**	**(2.7)**	**7.6**	**20.2**	**36.1**
Consumer Wellness	22.1	10.2	12.5	1.7	5.8	18.0	12.1	7.9	11.8
Animal Health	25.2	(100.0)	NA	NA	NA	NA	NA	NA	NA
API	19.9	3.9	(16.1)	25.0	(2.3)	(10.0)	(16.6)	14.0	(8.2)
Total sales*	**3.6**	**10.4**	**(2.0)**	**(5.6)**	**(0.4)**	**0.1**	**6.9**	**17.3**	**(17.9)**

*Source: Company, Systematix Institutional Research; *Excludes other operating income*

Exhibit 6: Margin summary

Particulars (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Gross Margin	65.1	66.1	63.5	63.1	61.3	62.9	61.4	65.4	66.2
EBITDA Margin	22.2	23.7	22.7	20.6	18.6	20.5	19.7	21.9	25.1
EBIT Margin	17.3	19.2	17.9	15.6	13.8	16.0	15.3	17.8	21.5
PAT Margin	17.7	14.5	13.4	13.7	10.3	12.7	12.6	14.3	5.9

Source: Company, Systematix Institutional Research

Exhibit 7: Change in estimates

Particulars (Rs mn)	New estimates		Old estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net sales	1,94,036	2,00,588	1,80,040	1,86,727	*7.8*	*7.4*
EBITDA	42,767	43,740	41,691	42,664	*2.6*	*2.5*
Margin (%)	*22.0*	*21.8*	*23.2*	*22.8*	*(112) bps*	*(104) bps*
PAT	27,217	29,026	26,893	27,455	*1.2*	*5.7*
Margin (%)	*14.0*	*14.5*	*14.9*	*14.7*	*(91) bps*	*(23) bps*
EPS	26.5	28.2	26.2	26.7	*1.2*	*5.8*

Source: Systematix Institutional Research

Exhibit 8: Actual vs Estimates

Particulars (Rs mn)	Actuals	Systematix	Var(%)	Consensus	Var(%)
Net sales	50,106	47,778	*4.9*	46,625	*7.5*
EBITDA	12,556	11,476	*9.4*	10,711	*17.2*
Margin (%)	*25.1*	*24.0*	*104 bps*	*23.0*	*209 bps*
PAT	2,966	8,566	*(65.4)*	6,947	*(57.3)*
Margin (%)	*5.9*	*17.9*	*(1201) bps*	*14.9*	*(898) bps*
Adjusted PAT	8,979	8,566	*4.8*	6,947	*29.3*

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	**1,51,022**	**1,52,652**	**1,75,803**	**1,94,036**	**2,00,588**
YoY gr. (%)	6.0%	1.1%	15.2%	10.4%	3.4%
Cost of Goods Sold	52,101	55,452	63,101	64,996	67,051
Gross Profit	98,921	97,200	1,12,702	1,29,040	1,33,536
Margin (%)	65.5%	63.7%	64.1%	66.5%	66.6%
Employee Cost	24,902	24,341	27,656	30,062	32,677
Other Expenses	40,609	39,452	46,447	56,211	57,119
EBITDA	**33,410**	**33,407**	**38,599**	**42,767**	**43,740**
YoY gr. (%)	20.0%	0.0%	15.5%	10.8%	2.3%
Margin (%)	**22.1%**	**21.9%**	**22.0%**	**22.0%**	**21.8%**
Depreciation & Amortization	7,248	7,130	7,227	7,512	7,724
EBIT	26,162	26,277	31,372	35,255	36,016
Margin (%)	17.3%	17.2%	17.8%	18.2%	18.0%
Net Interest	1,635	1,270	1,299	1,078	1,113
Other Income	372	2,247	1,866	1,347	3,054
Exceptional Items	-2,051	23,584	-6,088	-	-
Profit Before Tax	22,848	50,838	25,851	35,523	37,957
Margin (%)	15.1%	33.3%	14.7%	18.3%	18.9%
Total Tax	1,472	5,117	5,878	8,023	8,559
Effective tax rate (%)	6.4%	10.1%	22.7%	22.6%	22.5%
Minority Interest & Share of Loss from Associates	-40	-848	-370	-283	-372
Profit after tax	**21,336**	**44,873**	**19,603**	**27,217**	**29,026**
Adj. EPS	22.8	20.8	25.4	26.5	28.2
YoY gr. (%)	51.7%	-9.0%	22.2%	4.4%	6.5%

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,024	1,024	1,012	1,012	1,012
Reserves & Surplus (Ex OCI)	1,28,899	1,68,972	1,74,146	1,95,920	2,19,141
Net Worth	**1,29,923**	**1,69,996**	**1,75,158**	**1,96,932**	**2,20,153**
Short term debt	30,709	38,339	11,632	21,559	22,263
Long term debt	6,095	3,621	-	-	-
Trade payables	22,059	21,378	21,250	25,349	26,150
Other Provisions	3,299	3,656	3,654	3,654	3,654
Other liabilities	46,762	40,964	45,870	45,870	45,870
Total Liabilities	**2,38,847**	**2,77,954**	**2,57,564**	**2,93,363**	**3,18,090**
Net block	1,21,328	1,22,534	1,15,914	1,23,535	1,22,341
CWIP	7,832	6,610	11,302	11,302	11,302
Other Non-current asset	22,527	26,196	30,184	30,184	30,184
Investments	1,989	23,532	6,193	6,193	6,193
Cash and Cash Equivalents	8,883	11,069	5,731	25,975	49,077
Debtors	31,273	33,403	44,168	42,688	44,129
Inventories	32,362	37,194	34,133	43,548	44,924
Other current asset	12,653	17,416	9,939	9,939	9,939
Total Assets	**2,38,847**	**2,77,954**	**2,57,564**	**2,93,363**	**3,18,090**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	22,848	52,323	26,843	36,469	38,903
Depreciation	7,248	7,361	7,227	7,512	7,724
Interest	1,604	1,144	1,299	1,078	1,113
Others	2,812	-29,526	-7,008	-401	-2,108
Working capital	1,868	-3,515	20,732	-3,836	-2,017
Direct tax	-3,450	-6,746	-5,878	-8,023	-8,559
Net cash from Op. activities	**32,930**	**21,041**	**43,215**	**32,800**	**35,057**
Net Capital expenditures	-8,540	-12,026	-5,299	-15,133	-6,531
Others	1,315	23,570	-2,122	1,347	3,054
Net Cash from Invt. activities	**-7,225**	**11,544**	**-7,421**	**-13,786**	**-3,477**
Issue of share cap. / premium	-	-	-	-	-
Debt changes	-22,241	-3,837	-30,328	9,927	705
Dividend paid	-15	-3,722	-3,921	-5,443	-5,805
Others	-3,233	-1,124	-6,844	-3,253	-3,377
Net cash from Fin. activities	**-25,489**	**-8,683**	**-41,093**	**1,231**	**-8,478**
Net change in cash	**216**	**23,902**	**-5,299**	**20,244**	**23,102**

Source: Company, Systematix Institutional Research

Key Financial Metrics

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Per Share(Rs)					
EPS	22.8	20.8	25.4	26.5	28.2
CEPS	29.9	27.7	32.5	33.8	35.8
BVPS	126.8	165.9	173.1	191.8	214.2
DPS	0.0	3.6	3.9	5.3	5.6
Return Ratio(%)					
RoCE	15.6	15.1	16.7	18.1	17.0
RoE	20.0	14.2	14.9	14.6	13.9
Balance Sheet					
Net Debt : Equity (x)	0.2	0.0	-0.0	-0.1	-0.1
Net Working Capital (Days)	144.7	163.3	163.5	169.0	179.6
Valuation(x)					
PER	22.2	24.4	20.0	19.1	18.0
EV/EBITDA	16.3	15.8	13.5	11.8	11.2
EV/Sales	3.6	3.5	3.0	2.6	2.4

Source: Company, Systematix Institutional Research

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