

Zydus Lifesciences Ltd.

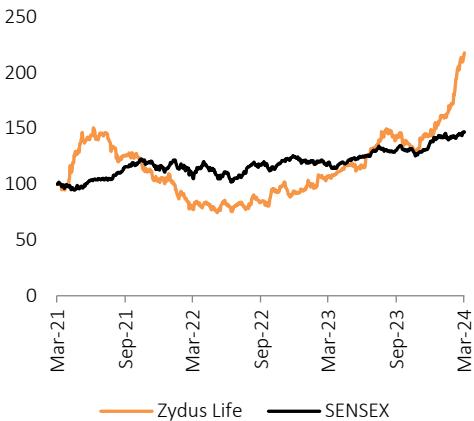
Strong growth in the US and India to drive growth further.

CMP* INR 954	Target INR 1,006	Potential Upside 17.3%	Market Cap (INR Mn) 9,73,133	Recommendation BUY	Sector Pharma
-------------------------------	-----------------------------------	---	---	-------------------------------------	--------------------------------

MARKET DATA

Shares O/S (Mn)	1012
Mkt Cap (INR Mn)	9,73,133
52 Wk H/L (INR)	936/ 461
Volume Avg (3m K)	1563
Face Value (INR)	1
Bloomberg Code	ZYDUSLIF IN

SHARE PRICE PERFORMANCE



Zydus Lifesciences Ltd. showed an in line market growth for the month of January 2024 for India Pharma Market (IPM) as per All Indian Origin Chemists and Distributors Ltd. (AIOCD) Jan 24 report. While the IPM growth was 9.5% Y-o-Y for the month of January 2024, Zydus Lifesciences clocked in 9.4% Y-o-Y growth for the same period on the back of IPM beating growth in its major therapies such as cardiac (13% of sales) and anti-infective (13% of sales); partially offset by slower than IPM growth in respiratory segment (14% of sales) in January 24. The Q4FY24E and Q1FY25E are the peak seasons for major brands of the company's wellness segment such as Glucon-D and Nycil. India formulations contributes 33% of revenue while consumer wellness contributes 9% of revenue as of Q3FY24. Additionally, the recently launched 505(b)(2) – NDA – Zituvio in the US, in Q3FY24, promises to be a strong growth driver for the US market over FY25E – FY26E, as it is a novel drug (approved in Oct 23 by the USFDA). The company expects Zituvio to gradually ramp up its market share in Sitagliptin in the US over a period of time with rise in Zituvio's adoption among physicians. Sitagliptin Tablets (RLD: Januvia) had estimated annual sales of USD 5.79 billion in the US (IQVIA MAT October 2023). At the same time, gRevlimid sales is expected to re-emerge in Q4FY24E and Q1FY25E as guided by the management. The company has announced a share buy back of up-to Rs. 6,000 Mn at Rs 1,005 per equity share, as well. We therefore raise the Target Price on Zydus Lifesciences to INR 1,006/share (prev: INR 913) as we raise the valuation multiple by 10% to 27.0x (vs. earlier multiple of 24.5x, It is at a 10% premium to its 5 year historical PE it has traded at) applying on FY26E EPS of Rs. 37.3 (unchanged). We upgrade our rating on Zydus Lifesciences from Accumulate to Buy as target price implies 17.3% upside from its CMP. We believe, stronger than anticipated growth in India markets driven by continued strong growth in chronic portfolio as well as in NCEs such as Saroglitzar, Oxemia, and Ujvira and more than anticipated growth in the US markets on the back of volumes growth in the base portfolio as well as new launches such as Zituvio and Transdermal products should support higher than anticipated profitable growth over FY23-FY26E. For now we maintain our sales and earning estimates at 10.2% and 18.3% CAGR over FY23 - FY26E

MARKET INFO

SENSEX	73,677
NIFTY	22,356

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	75.0	75.0	75.0
FII	5.0	4.9	4.0
DII	13.0	13.0	13.4
Others	7.1	7.1	7.5
Total	100.0	100.0	100.0

	INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Revenue		1,51,099	1,72,374	1,93,125	2,11,068	2,30,700
Adj EBITDA		31,854	35,755	51,567	54,552	55,067
PAT Reported		44,873	19,603	36,106	36,065	37,716
EPS (INR) Reported		21.9	19.4	35.7	35.6	37.3
Adj. PAT		42,193	22,801	35,491	36,065	37,716
Adj. EPS (INR)		41.2	22.4	35.1	35.6	37.3
Adj. EBITDA Margin		21.1%	20.7%	26.7%	25.8%	23.9%
Adj. NPM		27.9%	13.2%	18.4%	17.1%	16.3%

*Based on yesterday's closing

Zydus Lifesciences Ltd.

KEY FINANCIALS

INR Millions	FY 22	FY 23E	FY 24E	FY25E	FY26E
Revenues	1,51,099	1,72,374	1,93,125	2,11,068	2,30,700
COGS	55,452	63,101	63,439	70,942	78,429
Gross profit	95,647	1,09,273	1,29,686	1,40,126	1,52,271
Employee cost	24,341	27,656	31,749	35,698	41,526
Other expenses	39,452	45,862	46,370	49,877	55,678
EBITDA	31,854	35,755	51,567	54,552	55,067
<i>EBITDA Margin</i>	21.1%	20.7%	26.7%	25.8%	23.9%
Adjusted EBITDA	31,854	35,755	51,567	54,552	55,067
<i>Adj EBITDA Margin</i>	21.1%	20.7%	26.7%	25.8%	23.9%
Depreciation & amortization	7,130	7,227	8,127	10,156	11,101
EBIT	24,724	28,528	43,440	44,395	43,966
Interest expense	1,270	1,299	677	844	422
Other income	2,247	1,866	1,330	1,477	2,307
PBT before exceptional items	25,701	29,095	44,093	45,028	45,851
Exceptional Items	-2,680	3,198	-615	0	0
PBT	28,381	25,897	44,708	45,028	45,851
Tax	5,117	5,878	9,356	9,906	9,170
Share of Profit/(Loss) of Associates	462	946	1,278	1,055	1,154
Loss from Discontinued Operations	22,457	-46	0	0	0
Minority Interest	1,310	1,316	525	112	118
PAT	44,873	19,603	36,106	36,065	37,716
EPS (INR)	43.83	19.30	35.68	35.64	37.27
Adj. PAT	42,193	22,801	35,491	36,065	37,716
Adj EPS (INR)	41.21	22.45	35.07	35.64	37.27

INR Millions	FY22E	FY23E	FY24E	FY25E	FY26E
Net Cash Generated From Operations	21,041	26,888	30,333	40,444	42,007
Net Cash Flow from/(used in) Investing Activities	11,544	11,712	(3,280)	(11,109)	(12,145)
Net Cash Flow from Financing Activities	(8,683)	(44,004)	(5,072)	(8,057)	(7,965)
Net Inc/Dec in cash equivalents	23,902	(5,404)	21,981	21,278	21,897
Opening Balance	6,652	6,578	4,878	20,666	41,944
Adjustments	(74)	(1,700)	15,788	21,278	21,897
Closing Balance Cash and Cash Equivalents	6,578	4,878	20,666	41,944	63,840

Source: Company, Deven Choksey Research

Zydus Lifesciences Ltd.

KEY FINANCIALS

INR Millions	FY22	FY23E	FY24E	FY25E	FY26E
Non-current assets					
Property, plant and equipment	57,616	56,965	57,559	58,207	58,916
Capital work-in-progress	6,610	11,302	11,302	11,302	11,302
Goodwill (Net)	53,646	48,044	48,044	48,044	48,044
Other intangible assets	11,272	10,905	9,709	8,402	6,973
Investments accounted for using equity method	3,743	4,166	4,695	4,695	4,695
Investments	5,605	5,107	7,164	7,830	8,558
Loans	0	20	0	0	0
Other financial assets	2,446	4,980	3,126	3,417	3,735
Deferred tax assets (Net)	10,958	12,624	14,006	15,307	16,731
Tax assets (Net)	938	1,125	1,199	1,310	1,432
Other non-current assets	2,506	2,162	3,203	3,501	3,826
Total non-current assets	1,55,340	1,57,400	1,60,007	1,62,015	1,64,212
Current assets					
Inventories	37,194	34,133	42,551	47,584	52,606
Investments	23,532	6,193	6,193	6,193	6,193
Trade receivables	33,403	44,168	42,694	46,660	51,000
Cash and cash equivalents	6,578	4,878	20,666	41,944	63,840
Bank balances other than (iii) above	4,491	853	853	853	853
Loans	0	4	4	4	4
Other financial assets	6,664	2,280	5,593	6,113	6,682
Other current assets + Current Tax Assets	9,090	7,573	10,940	11,957	13,069
Assets classified as held for sale	1,662	82	82	82	82
Total current assets	1,22,614	1,00,164	1,29,576	1,61,389	1,94,329
TOTAL ASSETS	2,77,954	2,57,564	2,89,583	3,23,404	3,58,542
EQUITY AND LIABILITIES					
Equity					
Equity share capital	1,024	1,012	1,012	1,012	1,012
Other equity	1,68,972	1,74,146	2,03,031	2,31,883	2,62,056
Equity attributable to the equity shareholders	1,69,996	1,75,158	2,04,043	2,32,895	2,63,068
Non-controlling interests	20,542	21,725	22,250	22,362	22,480
Total equity	1,90,538	1,96,883	2,26,292	2,55,257	2,85,547
Liabilities					
Non-current liabilities					
Borrowings	3,782	0	0	0	0
Other financial liabilities	449	712	712	712	712
Provisions	3,250	2,718	2,718	2,718	2,718
Deferred tax liabilities (Net)	1,538	1,944	1,944	1,944	1,944
Other non-current liabilities + Trade payables	3	0	0	0	0
Total non-current liabilities	9,022	5,374	5,374	5,374	5,374
Current liabilities					
Borrowings	38,427	11,632	11,632	11,632	11,632
Trade payables	21,378	21,250	24,457	27,350	30,236
Other financial liabilities	12,525	14,458	14,329	16,024	17,715
Other current liabilities	1,990	2,745	2,277	2,546	2,815
Provisions	3,656	3,654	3,654	3,654	3,654
Current tax liabilities (Net)	418	1,568	1,568	1,568	1,568
Total current liabilities	78,394	55,307	57,917	62,773	67,620
Total liabilities	87,416	60,681	63,291	68,147	72,994
TOTAL EQUITY AND LIABILITIES	2,77,954	2,57,564	2,89,583	3,23,404	3,58,541

Zydus Lifesciences Ltd.

Zydus Lifesciences Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
06-Mar-24	954	1006	BUY	Buy	More than 15%
14-Feb-24	858	913	ACCUMULATE	Accumulate	5% – 15%
25-Aug-23	640	725	ACCUMULATE	Hold	0 – 5%
20-May-23	497	623	BUY	Reduce	-5% – 0
15-Feb-23	473	610	BUY	Sell	Less than – 5%
15-Nov-22	424	507	BUY		
17-Oct-22	419	494	BUY		
15-Aug-22	387	445	BUY		
24-May-22	368	445	BUY		

ANALYST CERTIFICATION:

I, **Karan Kamdar** (CA), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

DRChoksey FinServ Private Limited (hereinafter referred to as DCFPL) is a registered member of SEBI as a Research Entity vides Registration No. INH000011246 under SEBI (Research Analyst) Regulations, 2014, Portfolio Managers Entity vides Registration No. INP000007906 under SEBI (PORTFOLIO MANAGERS) Regulations, 2020 & Investment Adviser Entity vides Registration No. INA000017903 under SEBI (INVESTMENT ADVISERS) REGULATIONS, 2013.

The information and opinions in this report have been prepared by DCFPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DCFPL. While we would endeavor to update the information herein on a reasonable basis, DCFPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent DCFPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or DCFPL policies, in circumstances where DCFPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. DCFPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. DCFPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, in reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

We submit that no material disciplinary action has been taken on DCFPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

DCFPL prohibits its associate, analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

DCFPL or its associates (Group Companies) collectively or its research analyst, or relatives do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, I, **Karan Kamdar** Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

DCFPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

DCFPL or its associates (Group Companies) collectively or its research analyst, or relatives might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

DCFPL or its associates (Group Companies) collectively or its research analyst, or relatives might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report other than investment banking or merchant banking or brokerage services from the subject company

DCFPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. DCFPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DCFPL nor Research Analysts his associate or his relative, have any material conflict of interest at the time of publication of this report.

It is confirmed that, **Karan Kamdar**, Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

DCFPL or its associates (Group Companies) or its research analyst has may been engaged in market making activity for the subject company.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DCFPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

The securities quoted are for illustration only and are not recommendatory

Please send your feedback to research.retail@devenchoksey.com

DRChoksey FinServ Private Limited

CIN Number -U67100MH2020PTC352816

Registered Office and Corporate Office:
5th Floor Abhishek Building, Behind Monginis Cake Factory, Off New Link Road, Andheri West, Mumbai-400058