

Rating: BUY | CMP: Rs357 | TP: Rs450

May 23, 2022

## Q4FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		ACCUMULATE	
Target Price	450		465	
Sales (Rs. m)	161,377	172,749	161,599	174,899
% Chng.	(0.1)	(1.2)		
EBITDA (Rs. m)	34,810	37,227	35,843	38,790
% Chng.	(2.9)	(4.0)		
EPS (Rs.)	21.1	22.4	21.3	23.0
% Chng.	(0.7)	(2.6)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	144,035	152,652	161,377	172,749
EBITDA (Rs. m)	33,871	33,407	34,810	37,227
Margin (%)	23.5	21.9	21.6	21.5
PAT (Rs. m)	22,016	22,416	21,652	22,940
EPS (Rs.)	21.5	21.9	21.1	22.4
Gr. (%)	42.9	1.8	(3.4)	5.9
DPS (Rs.)	4.0	4.0	4.0	4.0
Yield (%)	1.1	1.1	1.1	1.1
RoE (%)	18.8	14.9	12.1	11.7
RoCE (%)	15.1	13.6	12.5	12.6
EV/Sales (x)	2.8	2.6	2.4	2.2
EV/EBITDA (x)	11.9	11.9	11.2	10.2
PE (x)	16.6	16.3	16.9	15.9
P/BV (x)	2.8	2.1	2.0	1.8

### Key Data

ZYDU.BO | ZYDUSLIF IN

52-W High / Low	Rs.669 / Rs.319
Sensex / Nifty	54,326 / 16,266
Market Cap	Rs.365bn / \$ 4,711m
Shares Outstanding	1,024m
3M Avg. Daily Value	Rs.477.31m

### Shareholding Pattern (%)

Promoter's	74.88
Foreign	2.53
Domestic Institution	12.25
Public & Others	10.34
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.1)	(22.9)	(42.0)
Relative	3.8	(15.3)	(47.1)

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## In-line quarter; risk reward favorable

### Quick Pointers:

- Guided for single digit growth in US sales and +20% OPM in FY23.
- COVID led inventory provision to tune of Rs1.43bn in Q4.

**CDH reported in line operating performance. Company's steady domestic franchise, strong balance sheet and potential new launches like gRevlimid will help to negate pricing pressure and likely competition in some key products like gAsacol in US. Further company has initiated cost efficiency programs. It is also working on a robust pipeline of complex products including injectables, transdermals, NCE, biosimilars and vaccines which will materialize over the next 2-3 years. We expect steady earnings (8% EBITDA CAGR over FY22-24E) in near term. Our FY23E and FY24E EPS broadly remains unchanged. Given recent correction in stock price and current valuations of 16x P/E on FY24E look attractive, we upgrade stock to 'Buy' from Accumulate with TP of Rs450 based on 20x FY24E earnings**

- In-line revenues aided by higher domestic formulations:** Cadila Q4FY22 sales increased 5% YoY (up 6% QoQ) to Rs39bn in-line with our estimate. Domestic formulation sales increased by 14% YoY. Ex-COVID and generics, branded generics portfolio growth came at 21% YoY. Consumer business grew by 6% YoY. US sales came in at USD 189mn (down 5%QoQ), below our estimate. Emerging markets growth was 10% YoY to Rs2.8bn; ex COVID growth was 29% YoY. API saw decline of 2% YoY to Rs1.36bn.
- Adjusted OPM at 20%; COVID led inventory provision:** GM declined by 220bp QoQ to 60%, mainly on account of one-time inventory provision. Adjusted for one time COVID led inventory provision (Rs1.43bn), GMs came in at 64% (up 170 bps QoQ). Other expenses were up by 5% YoY, while staff cost was up mere 3% YoY led by closure of manufacturing facilities- Neshier and Hercon. Adjusted margin for inventory provision came in at 20%. Adjusted EBITDA including other operating income came in at Rs8.6bn, vs our est of Rs8.2bn. R&D cost came at 7.2% of sales, up 18% YoY. Adj PAT for one offs came in at Rs5.25bn vs our est of Rs5bn.
- Key concall takeaways:** (1) Despite price erosion and increased competition US formulations continued its volume growth and maintained top three ranking in 60% of the product families. (2) Injectables to be important segment in US generic business, received final approval for NULIBRY injection, having 180 days, exclusivity. (3) Consumer wellness business remained challenging, while in H2 it has retained leadership in five out of six categories (4) No immediate traction from ZyCov-D vaccine in domestic market. (5) Company's biologics business continued to maintain strong momentum, while major products are at various stages of clinical trials and early stage of development (6) Healthy BS with net cash of Rs0.6bn in FY22 vs net debt of 35bn as of FY21. (8) Guided for single digit growth in US aided by Revlimid and delayed competition in gAsacol in FY23E. Company announced buyback to tune of Rs7.5bn at a price of Rs650/share

**Exhibit 1: 4QFY21 Result Overview (Rs mn): India business drives growth**

Y/e March	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
<b>Net Sales</b>	<b>38,638</b>	<b>36,703</b>	<b>5.3</b>	<b>36,398</b>	<b>6.2</b>	<b>152,652</b>	<b>144,035</b>	<b>6.0</b>
Raw Material	14,958	12,364	21.0	13,334	12.2	55,452	48,021	15.5
<i>% of Net Sales</i>	<i>38.7</i>	<i>33.7</i>		<i>36.6</i>		<i>36.3</i>	<i>33.3</i>	
Personnel Cost	5,998	5,801	3.4	5,912	1.5	24,341	22,951	6.1
<i>% of Net Sales</i>	<i>15.5</i>	<i>15.8</i>		<i>16.2</i>	<i>(4.4)</i>	<i>15.9</i>	<i>15.9</i>	
Others	10,505	10,043	4.6	9,636	9.0	39,452	39,192	0.7
<i>% of Net Sales</i>	<i>27.2</i>	<i>27.4</i>		<i>26.5</i>		<i>25.8</i>	<i>27.2</i>	
Total Expenditure	31,461	28,208	11.5	28,882	8.9	119,245	110,164	8.2
<b>EBITDA</b>	<b>7,177</b>	<b>8,495</b>	<b>(15.5)</b>	<b>7,516</b>	<b>(4.5)</b>	<b>33,407</b>	<b>33,871</b>	<b>(1.4)</b>
<i>Margin (%)</i>	<i>18.6</i>	<i>23.1</i>		<i>20.6</i>		<i>21.9</i>	<i>23.5</i>	
Depreciation	1,854	1,753	5.8	1,770	4.7	7,130	6,696	6.5
<b>EBIT</b>	<b>5,323</b>	<b>6,742</b>	<b>(21.0)</b>	<b>5,746</b>	<b>(7.4)</b>	<b>26,277</b>	<b>27,175</b>	<b>(3.3)</b>
Other Income	791	(304)	(360.2)	607	30.3	2,247	456	392.8
Interest	385	232	65.9	311	23.8	1,270	1,588	(20.0)
<b>PBT</b>	<b>5,729</b>	<b>6,206</b>	<b>(7.7)</b>	<b>6,042</b>	<b>(5.2)</b>	<b>27,254</b>	<b>26,043</b>	<b>4.7</b>
Extra-Ord. Inc./Exps.	-	731	(100.0)	-	-	1,127	(2,051)	(154.9)
Total Taxes	1,092	(2,060)	(153.0)	1,094	(0.2)	5,117	1,936	164.3
<i>ETR (%)</i>	<i>19.1</i>	<i>(33.2)</i>		<i>18.1</i>		<i>18.8</i>	<i>7.4</i>	
Minority interest	(513)	(526)		121		(848)	(40)	
<b>Reported PAT</b>	<b>4,124</b>	<b>7,009</b>	<b>(41.2)</b>	<b>5,069</b>	<b>(18.6)</b>	<b>22,416</b>	<b>22,016</b>	<b>1.8</b>

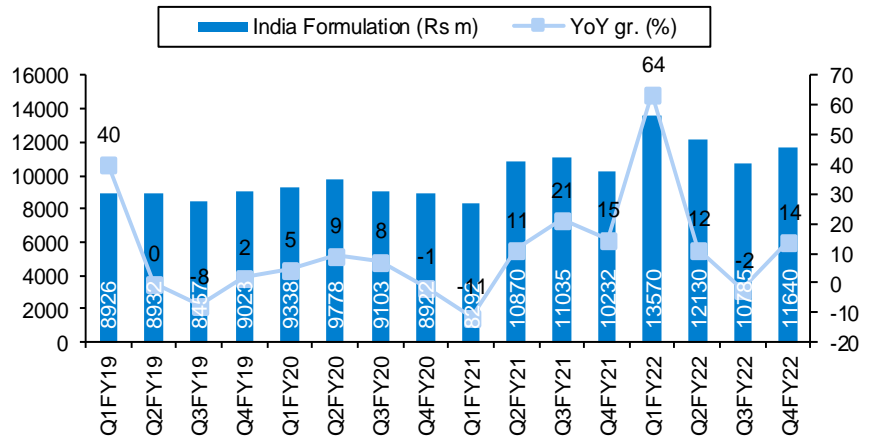
Source: Company, PL

**Exhibit 2: Major Sources of Revenues**

Major Sources of Revenues	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	FY22	FY21	YoY gr. (%)
<b>Domestic</b>	<b>19,333</b>	<b>17,611</b>	<b>9.8</b>	<b>16,252</b>	<b>19.0</b>	<b>77,166</b>	<b>64,459</b>	<b>19.7</b>
<i>% of Net Sales</i>	<i>51.7</i>	<i>49.2</i>		<i>46.0</i>		<i>50.9</i>	<i>45.4</i>	
Formulation	11,640	10,232	13.8	10,785	7.9	49,343	40,429	22.0
<i>% of Net Sales</i>	<i>31.1</i>	<i>28.6</i>		<i>30.6</i>		<i>32.5</i>	<i>28.5</i>	
API	1,363	1,395	(2.3)	1,645	(17.1)	5,615	5,621	(0.1)
<i>% of Net Sales</i>	<i>3.6</i>	<i>3.9</i>		<i>4.7</i>		<i>3.7</i>	<i>4.0</i>	
Consumer HC & Others	6,330	5,984	5.8	3,822	65.6	22,208	18,409	20.6
<i>% of Net Sales</i>	<i>16.9</i>	<i>16.7</i>		<i>10.8</i>		<i>14.6</i>	<i>13.0</i>	
<b>Exports</b>	<b>18,085</b>	<b>18,198</b>	<b>(0.6)</b>	<b>19,041</b>	<b>(5.0)</b>	<b>74,515</b>	<b>77,506</b>	<b>(3.9)</b>
<i>% of Net Sales</i>	<i>48.3</i>	<i>50.8</i>		<i>54.0</i>		<i>49.1</i>	<i>54.6</i>	
Formulation	17,616	18,001	(2.1)	18,486	(4.7)	72,906	76,674	(4.9)
<i>% of Net Sales</i>	<i>47.1</i>	<i>50.3</i>		<i>52.4</i>		<i>48.1</i>	<i>54.0</i>	
North America	14,233	14,876	(4.3)	14,892	(4.4)	58,758	64,232	(8.5)
EU	633	626	1.1	680	(6.9)	2,456	2,275	7.9
EM	2,750	2,499	10.0	2,914	(5.6)	11,693	10,167	15.0

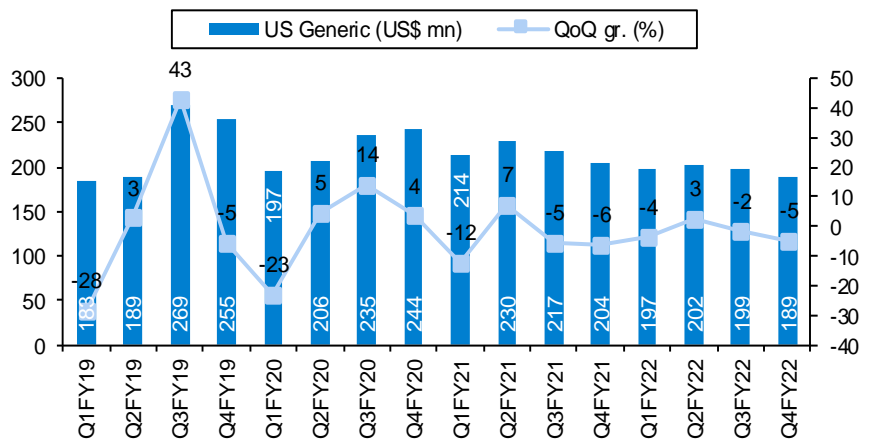
Source: Company, PL

**Exhibit 3: India Formulation: Strong growth, outperform the IPM**



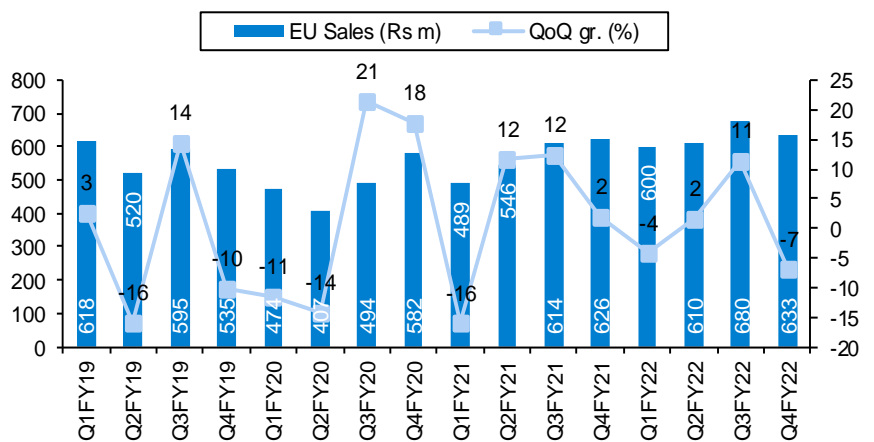
Source: Company, PL

**Exhibit 4: US Generic(US\$m): Down 5% QoQ led by price erosion**



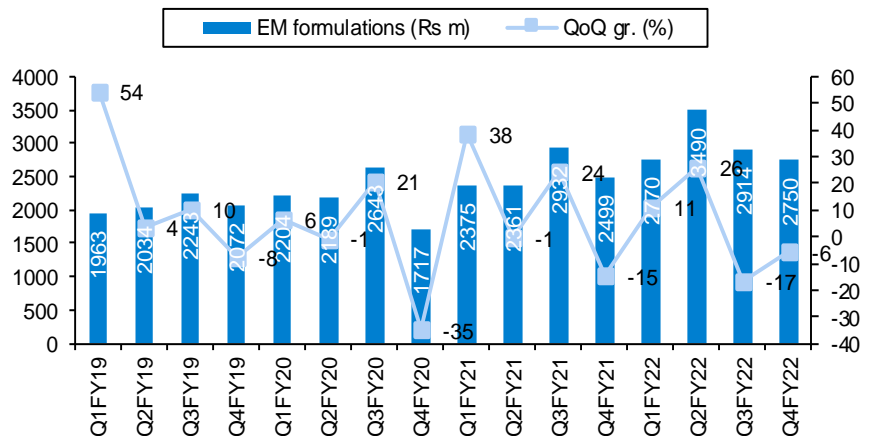
Source: Company, PL

**Exhibit 5: EU sales (Rs m) & QoQ Gr(%): Growth remains muted**



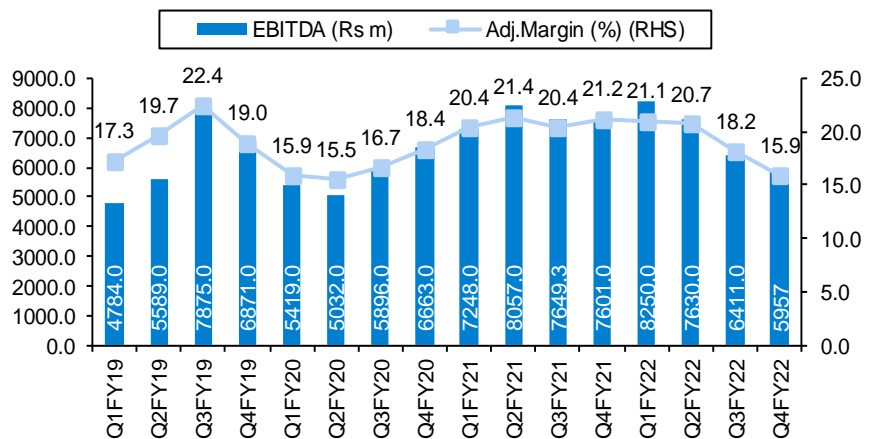
Source: Company, PL

**Exhibit 6: EM formulations (Rs m) and QoQ Gr(%): Steady growth YoY**



Source: Company, PL

**Exhibit 7: EBITDA (Rs mn) and Adj.Margin (%): Inventory provision impacted margins**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>144,035</b>	<b>152,652</b>	<b>161,377</b>	<b>172,749</b>
YoY gr. (%)	1.1	6.0	5.7	7.0
Cost of Goods Sold	48,021	55,452	58,523	62,761
Gross Profit	96,014	97,200	102,854	109,988
Margin (%)	66.7	63.7	63.7	63.7
Employee Cost	22,951	24,341	26,288	28,391
Other Expenses	8,699	7,427	8,541	9,822
<b>EBITDA</b>	<b>33,871</b>	<b>33,407</b>	<b>34,810</b>	<b>37,227</b>
YoY gr. (%)	24.0	(1.4)	4.2	6.9
Margin (%)	23.5	21.9	21.6	21.5
Depreciation and Amortization	6,696	7,130	7,558	8,011
<b>EBIT</b>	<b>27,175</b>	<b>26,277</b>	<b>27,252</b>	<b>29,215</b>
Margin (%)	18.9	17.2	16.9	16.9
Net Interest	1,588	1,270	1,100	1,000
Other Income	456	2,247	1,600	1,900
<b>Profit Before Tax</b>	<b>23,992</b>	<b>28,381</b>	<b>27,752</b>	<b>30,115</b>
Margin (%)	16.7	18.6	17.2	17.4
Total Tax	1,936	5,117	5,550	6,625
Effective tax rate (%)	8.1	18.0	20.0	22.0
<b>Profit after tax</b>	<b>22,056</b>	<b>23,264</b>	<b>22,202</b>	<b>23,490</b>
Minority interest	514	1,310	1,000	1,000
Share Profit from Associate	474	462	450	450
<b>Adjusted PAT</b>	<b>22,016</b>	<b>22,416</b>	<b>21,652</b>	<b>22,940</b>
YoY gr. (%)	42.9	1.8	(3.4)	5.9
Margin (%)	15.3	14.7	13.4	13.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>22,016</b>	<b>22,416</b>	<b>21,652</b>	<b>22,940</b>
YoY gr. (%)	42.9	1.8	(3.4)	5.9
Margin (%)	15.3	14.7	13.4	13.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	22,016	22,416	21,652	22,940
<b>Equity Shares O/s (m)</b>	<b>1,024</b>	<b>1,024</b>	<b>1,024</b>	<b>1,024</b>
<b>EPS (Rs)</b>	<b>21.5</b>	<b>21.9</b>	<b>21.1</b>	<b>22.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>172,979</b>	<b>181,315</b>	<b>193,315</b>	<b>205,315</b>
Tangibles	88,713	92,988	99,142	105,297
Intangibles	84,266	88,327	94,173	100,018
<b>Acc: Dep / Amortization</b>	<b>51,651</b>	<b>58,781</b>	<b>66,339</b>	<b>74,350</b>
Tangibles	35,914	40,871	46,127	51,697
Intangibles	15,737	17,910	20,212	22,653
<b>Net fixed assets</b>	<b>121,328</b>	<b>122,534</b>	<b>126,976</b>	<b>130,965</b>
Tangibles	52,799	52,117	53,016	53,600
Intangibles	68,529	70,417	73,960	77,365
Capital Work In Progress	7,832	6,610	6,610	6,610
Goodwill	-	-	-	-
Non-Current Investments	8,301	32,880	32,880	32,880
Net Deferred tax assets	9,547	9,420	9,420	9,420
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	32,362	37,194	39,494	42,287
Trade receivables	31,273	33,403	37,300	39,938
Cash & Bank Balance	8,883	11,069	12,830	18,122
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>228,103</b>	<b>266,996</b>	<b>281,727</b>	<b>299,002</b>
<b>Equity</b>				
Equity Share Capital	1,024	1,024	1,024	1,024
Other Equity	128,899	168,972	186,276	204,868
<b>Total Networkth</b>	<b>129,923</b>	<b>169,996</b>	<b>187,300</b>	<b>205,892</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,095	3,621	(1,379)	(1,379)
Provisions	6,394	6,906	6,906	6,906
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	39,740	38,339	38,339	35,339
Trade payables	22,059	21,378	23,805	25,488
Other current liabilities	14,066	15,634	15,634	15,634
<b>Total Equity &amp; Liabilities</b>	<b>228,103</b>	<b>266,996</b>	<b>281,727</b>	<b>299,002</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	33,871	33,407	34,810	37,227
Add. Depreciation	6,696	7,130	7,558	8,011
Add. Interest	1,588	1,270	1,100	1,000
Less Financial Other Income	456	2,247	1,600	1,900
Add. Other	(7,553)	(10,448)	(8,658)	(9,011)
Op. profit before WC changes	34,602	31,359	34,810	37,227
Net Changes-WC	1,868	(3,515)	(3,771)	(3,747)
Direct tax	(3,450)	(6,746)	(5,550)	(6,625)
<b>Net cash from Op. activities</b>	<b>33,020</b>	<b>21,098</b>	<b>25,489</b>	<b>26,854</b>
Capital expenditures	(8,540)	(12,026)	(12,000)	(12,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(8,540)</b>	<b>(12,026)</b>	<b>(12,000)</b>	<b>(12,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(33,435)	(22,297)	(7,331)	(5,564)
Dividend paid	(15)	(3,722)	(4,898)	(4,898)
Interest paid	(1,588)	(1,270)	(1,100)	(1,000)
Others	9,792	20,403	1,600	1,900
<b>Net cash from Fin. activities</b>	<b>(25,246)</b>	<b>(6,886)</b>	<b>(11,729)</b>	<b>(9,562)</b>
<b>Net change in cash</b>	<b>(766)</b>	<b>2,186</b>	<b>1,761</b>	<b>5,292</b>
Free Cash Flow	24,480	9,072	13,489	14,854

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Net Revenue</b>	<b>40,254</b>	<b>37,848</b>	<b>36,398</b>	<b>38,638</b>
YoY gr. (%)	10.6	(0.9)	(4.1)	5.3
Raw Material Expenses	13,748	13,823	13,334	14,958
Gross Profit	26,506	24,025	23,064	23,680
Margin (%)	65.8	63.5	63.4	61.3
<b>EBITDA</b>	<b>9,330</b>	<b>8,608</b>	<b>7,516</b>	<b>7,177</b>
YoY gr. (%)	14.4	(0.3)	(6.9)	(15.5)
Margin (%)	23.2	22.7	20.6	18.6
Depreciation / Depletion	1,827	1,848	1,770	1,854
<b>EBIT</b>	<b>7,503</b>	<b>6,760</b>	<b>5,746</b>	<b>5,323</b>
Margin (%)	18.6	17.9	15.8	13.8
Net Interest	273	301	311	385
Other Income	316	533	607	791
<b>Profit before Tax</b>	<b>7,546</b>	<b>6,992</b>	<b>6,042</b>	<b>5,729</b>
Margin (%)	18.7	18.5	16.6	14.8
Total Tax	1,415	1,000	1,094	1,092
Effective tax rate (%)	18.8	14.3	18.1	19.1
<b>Profit after Tax</b>	<b>6,131</b>	<b>5,992</b>	<b>4,948</b>	<b>4,637</b>
Minority interest	483	(27)	(121)	513
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>5,648</b>	<b>5,062</b>	<b>5,069</b>	<b>4,124</b>
YoY gr. (%)	24.4	6.9	(3.9)	(41.2)
Margin (%)	14.0	13.4	13.9	10.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,648</b>	<b>5,062</b>	<b>5,069</b>	<b>4,124</b>
YoY gr. (%)	24.4	6.9	(3.9)	(41.2)
Margin (%)	14.0	13.4	13.9	10.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>5,648</b>	<b>5,062</b>	<b>5,069</b>	<b>4,124</b>
Avg. Shares O/s (m)	1,024	1,024	1,024	1,024
<b>EPS (Rs)</b>	<b>5.5</b>	<b>5.9</b>	<b>5.0</b>	<b>4.0</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	21.5	21.9	21.1	22.4
CEPS	28.0	28.9	28.5	30.2
BVPS	126.9	166.0	182.9	201.1
FCF	23.9	8.9	13.2	14.5
DPS	4.0	4.0	4.0	4.0
<b>Return Ratio(%)</b>				
RoCE	15.1	13.6	12.5	12.6
ROIC	12.4	10.3	10.1	10.4
RoE	18.8	14.9	12.1	11.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.3	0.2	0.1	0.1
Net Working Capital (Days)	105	118	120	120
<b>Valuation(x)</b>				
PER	16.6	16.3	16.9	15.9
P/B	2.8	2.1	2.0	1.8
P/CEPS	12.7	12.4	12.5	11.8
EV/EBITDA	11.9	11.9	11.2	10.2
EV/Sales	2.8	2.6	2.4	2.2
Dividend Yield (%)	1.1	1.1	1.1	1.1

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY21	FY22	FY23E	FY24E
US Formulations	63,505	58,138	59,198	61,202
Domestic Formulations	58,838	67,913	74,790	81,841
Consumer Healthcare	18,409	19,788	21,371	23,081
Income from JVs	844	2,079	2,000	2,100

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	Accumulate	465	369
2	04-Feb-22	Accumulate	465	408
3	07-Jan-22	BUY	590	451
4	01-Nov-21	BUY	590	504

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,772	4,537
2	Aster DM Healthcare	BUY	234	193
3	Aurobindo Pharma	Accumulate	759	699
4	Cipla	BUY	1,085	926
5	Divi's Laboratories	Accumulate	4,750	4,448
6	Dr. Reddy's Laboratories	BUY	4,900	3,929
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	362	271
9	Glenmark Pharmaceuticals	Accumulate	550	477
10	HealthCare Global Enterprises	BUY	316	292
11	Indoco Remedies	BUY	430	350
12	Ipca Laboratories	BUY	1,180	1,002
13	Krishna Institute of Medical Sciences	BUY	1,638	1,405
14	Lupin	Hold	600	635
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	733
17	Sun Pharmaceutical Industries	BUY	1,050	931
18	Torrent Pharmaceuticals	BUY	3,560	2,753
19	Zydus Lifesciences	Accumulate	465	369

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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