

Zydus Lifesciences Ltd.



Zydu Lifesciences Ltd.

India prescription business to drive growth while US outlook improves

CMP INR 368	Target INR 445	Potential Upside 21%	Market Cap (INR Mn) INR 3,76,830	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights of Q4FY22

- The company posted a 5.3% YoY (+5.7% QoQ) rise in revenue to INR 38.64 bn. Growth in revenue from operations was driven by 13.8% YoY (+7.9% QoQ) rise in India revenue (31% of revenue) and 5.8% YoY (+65.7% QoQ) rise in India Consumer Wellness revenue (17.0% of revenue) in Q4FY22
- Zydu Lifesciences witnessed 140 bps YoY (+177 bps QoQ) decline in gross margins (GPMs) due to inflationary pressures in Q4FY22. The company's EBITDA declined marginally by 95 bps YoY (+161 bps QoQ) to 22.2% in Q4FY22 though
- The board of directors have approved buyback of upto 11.5 fully paid equity shares each having INR 1 FV, representing 1.13% of the total number of equity shares in the paid-up capital of the company at a price of INR 650 / share at an aggregate cash consideration of upto INR 7.50 bn, which is 7% and 4% of the paid up and free reserves, respectively

MARKET DATA

Shares outs (Mn)	1,024
Equity Cap (INR Mn)	190,538
Mkt Cap (INR Mn)	3,76,830
52 Wk H/L (INR)	669/319
Volume Avg (3m K)	1,420
Face Value (INR)	1
Bloomberg Code	CDH IS

KEY FINANCIALS

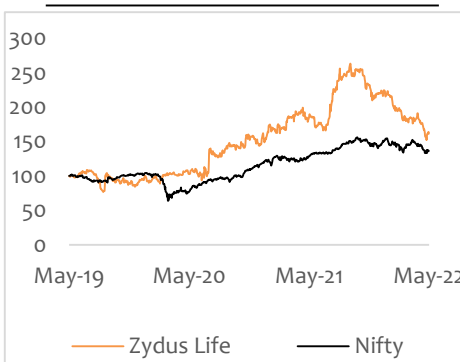
INR Millions	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,42,531	1,44,035	1,52,652	1,59,807	1,74,843
Adj EBITDA	29,734	33,871	35,207	33,777	38,529
Adj. PAT	17,302	24,067	23,089	20,888	24,059
Adj EPS (INR)	16.9	23.5	22.5	20.4	23.5
Adj EBITDA Margin	21.5%	24.0%	23.7%	21.3%	22.2%
Adj. NPM	12.1%	16.7%	15.1%	13.1%	13.8%

Source: Company, KRChoksey Research

Strong growth in India markets in Q4FY22: The company posted a 5.3% YoY (+5.7% QoQ) rise in revenue to INR 38.64 bn. Growth in revenue from operations was driven by 13.8% YoY (+7.9% QoQ) rise in India revenue (31% of revenue), 5.8% YoY (+65.7% QoQ) rise in India Consumer Wellness revenue (17.0% of revenue), 10.0% YoY (-5.5% QoQ) rise in Emerging Market (EM) revenue (7.0% of revenue), 1.1% YoY (-6.9% QoQ) rise in Europe revenue (2% of revenue) and a 98.7% YoY (-16.3% QoQ) rise in revenue from alliances (1.0% of revenue); partially offset by -4.3% YoY (-5.4% QoQ) decline in the US revenue (38% of revenue) and a 2.3% YoY (-17.4% QoQ) decline in API revenue (4.0% of revenue). India revenue growth was supported by strong growth in branded prescription segment. Ex. COVID 19, the India segment grew at 19.0% YoY in Q4FY22. The company has large number of brands in high value brackets. Nearly 8 of its brands continue to be in over INR 10.00 bn value bracket, 22 brands fall in INR 5.00 bn to INR 10.00 bn value bracket and 36 brands fall in INR 2.50 bn – INR 5.00 bn bracket as of Q4FY22. Zydu is the fifth largest company in Cardiac (chronic) segment in India as of Mar 22 (Source: AIOCD AWACS, Ind RA). Price increase taken in National List of Essential Medicines (NLEM) can enable it to continue to maintain higher growth in India segment. The company has over 30% of its India sales comprising of NLEM. The company is gaining market share in key therapies such as diabetic, cardio and gynecology in India market as of Q4FY22. The company sells the first DCGI approved biosimilar of trastuzumab emtansine named Ujvira to treat breast cancer since May 21 and Adalimumab Biosimilar (Exemptia) since Mar 2022, in India. The company took price increases QoQ in Consumer Wellness segment in Q4FY22 and implemented cost improvement measures.

Profitability inches up QoQ: Zydu Lifesciences witnessed 140 bps YoY (+177 bps QoQ) decline in gross margins (GPMs) to 64.9%, due to inflationary pressures in Q4FY22. However, due to higher GPMs QoQ and stable operating expenses YoY and QoQ (as a % of revenue), the company's EBITDA declined marginally by 95 bps YoY (+161 bps QoQ) to 22.2% in Q4FY22. Adjusted PAT declined 32.8% YoY (+7.6% QoQ) to INR 5.38 bn due to 360.2% YoY (+30.1% QoQ) decline in other income and a 65.9% YoY (+23.8% QoQ) rise in Interest expenses in Q4FY22.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	54,053
NIFTY	16,125

SHARE HOLDING PATTERN (%)

Particulars	Mar-22 (%)	Dec-21 (%)	Sep-21 (%)
Promoters	74.9	74.9	74.9
FIIIs	2.5	3.8	4.1
DIIIs	12.8	11.8	11.3
Others	9.8	9.5	9.7
Total	100	100	100

7.0%

Revenue CAGR between FY22 and FY24E

2.1%

Adj. PAT CAGR between FY22 and FY24E

Zydus Lifesciences Ltd.

Key Concall Highlights: (i) India business continued to witness double digit growth consistently, proving beneficial to branded prescription segment (ii) The company maintains leadership position in 5 out of 6 categories in Consumer Wellness business, which helped it to ride over COVID 19 impact in H1 and inflationary pressure in H2FY22 (iii) US formulations revenue grew in volume terms and maintained top 3 ranking in 60% of the products despite increased competition and pricing pressure (iv) The company took a one time COVID 19 related inventory provision of INR 1.80 bn in FY22 and INR 1.40 bn in Q4FY22 (v) The pricing erosion in the US, inflationary conditions and one time inventory provision affected gross margins in FY22 (vi) Continued efforts on cost optimization and efficiency enhancements helped it to contain EBITDA fall YoY in FY22 (vii) The company's net debt was -ve INR 0.6 bn as of Q4FY22 vs. INR 35.0 bn it was as of Q4FY21 (viii) Endeavors to strengthen its position in India market, especially in branded business (viii) The company launched 4 new products in the US, taking its newly launched products in the US market to 14 for FY22. The company bagged final approvals for 5 new products during Q4FY22, taking the cumulative number of approved products to 28 for FY22. Some of the key approvals include Nulibry injection (with 180 days exclusivity) in Q4FY22. The company has 420 ANDA filings and 312 approvals as of Q4FY22 (ix) The company wants to focus on rare and orphan drugs for its specialty business growth, which the company can grow through acquisition route also (x) It is to clock over 20.0% EBITDA margin in short – medium term (xi) To spend 8.0% of revenue in R&D over the next 3 years (2/3rd in generic and 1/3rd in NCEs)

Valuation and view: The company's profitability inching up QoQ due to improved products mix, price increases taken in Consumer Health business, and cost optimization measures, besides strong revenue growth momentum in India branded formulation prescription business including for biosimilars and the fact that the company is focused on ultra specialty products in the US market should enable it to maintain its profitability, going forward. Any strong growth in the US markets, following its high volume and high value products mix scaling up, and its under trial biosimilar products getting launched in China and Mexico markets, can lead to favorable rerating over medium term. **Shares of Cadila Healthcare have declined 10.0% since our last update in Feb 22. We estimate a 7.0% and a 2.1% CAGR growth in revenue and adjusted net income, respectively over FY22-FY24E (vs. 8.5% and 2.7% growth estimated earlier over FY21-FY24E). The shares are trading at 18.0x/15.7x on FY23E/FY24E EPS estimates, respectively. We apply the same PE of 18.0x to revised FY24E EPS of INR 23.5 (vs earlier INR 24.7 EPS) and also using DCF method, arrive at an amalgamated TP of INR 445.0 (earlier INR 445.0), which gives an upside potential of 21.0% from its CMP of INR 368. Accordingly, we upgrade our recommendation on the shares of Zydus Lifesciences to BUY from ACCUMULATE.**

Segment Result (INR Mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Total	35,809	39,180	36,880	36,880	37,418
US Formulations	14,876	14,510	14,980	15,040	14,233
India Formulations	10,232	13,570	12,140	10,790	11,640
EM Formulations	2,499	2,770	3,490	2,910	2,750
Europe Formulations	626	600	610	680	633
Consumer Wellness	5,984	5,860	3,770	3,820	6,330
Animal & Others	-39	0	0	0	0
APIs	1,395	1,360	1,340	1,650	1,363
Alliances	236	510	550	560	469

Segment Performance (% YoY)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Total	-1.3%	10.4%	-2.0%	-5.6%	4.5%
US Formulations	-15.5%	-10.6%	-12.3%	-6.2%	-4.3%
India Formulations	14.7%	63.7%	11.7%	-2.2%	13.8%
EM Formulations	45.5%	16.6%	47.8%	-0.8%	10.0%
Europe Formulations	7.6%	22.7%	11.7%	10.7%	1.1%
Consumer Wellness	22.1%	10.2%	12.5%	1.7%	5.8%
Animal & Others	-103.3%	-100.0%	-100.0%	-100.0%	-100.0%
APIs	19.9%	3.9%	-16.1%	25.0%	-2.3%
Alliances	29.0%	123.7%	180.6%	165.4%	98.7%

Sales Mix (% Revenue)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Total	100%	100%	100%	100%	100%
US Formulations	42%	37%	41%	42%	38%
India Formulations	29%	35%	33%	41%	31%
EM Formulations	7%	7%	9%	8%	7%
Europe Formulations	2%	2%	2%	2%	2%
Consumer Wellness	17%	15%	10%	11%	17%
Animal & Others	0%	0%	0%	0%	0%
APIs	4%	3%	4%	5%	4%
Alliances	1%	1%	1%	2%	1%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY 20	FY 21	FY 22	FY 23E	FY 24E
Revenues	1,42,531	1,44,035	1,52,652	1,59,807	1,74,843
COGS	49,200	48,021	53,652	59,498	63,438
Gross profit	93,331	96,014	99,000	1,00,309	1,11,406
Employee cost	24,145	22,951	24,341	25,345	27,763
Other expenses	41,352	39,192	39,452	41,186	45,114
EBITDA	27,834	33,871	35,207	33,777	38,529
EBITDA Margin	20.2%	24.0%	23.7%	21.3%	22.2%
Adjusted EBITDA	29,734	33,871	35,207	33,777	38,529
Adj EBITDA Margin	21.5%	24.0%	23.7%	21.3%	22.2%
Depreciation & amortization	6,965	6,696	7,130	6,352	6,950
EBIT	20,869	27,175	28,077	27,425	31,579
Interest expense	3,418	1,588	1,270	1,270	1,270
Other income	1,139	456	2,247	2,408	2,637
PBT before exceptional items	18,590	26,043	29,054	28,563	32,947
Exceptional Items	3,636	2,051	673	0	0
PBT	14,954	23,992	28,381	28,563	32,947
Tax	3,198	1,936	5,117	7,141	8,237
Share of Profit/(Loss) of Associates	288	474	462	687	755
Loss from Discontinued Operations	0	0	0	0	0
Minority Interest	278	514	1,310	1,221	1,406
PAT	11,766	22,016	22,416	20,888	24,059
EPS (INR)	11.49	21.50	21.89	20.40	23.50
Adj. PAT	17,302	24,067	23,089	20,888	24,059
Adj EPS (INR)	16.90	23.50	22.55	20.40	23.50

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	25,054	32,930	21,041	29,409	28,257
Net Cash Flow from/(used in) Investing Activities	(10,123)	(7,225)	11,544	(13,165)	(15,973)
Net Cash Flow from Financing Activities	(10,942)	(25,489)	(8,683)	(6,749)	(7,044)
Net Inc/Dec in cash equivalents	3,989	216	23,902*	9,495	5,239
Opening Balance	4,207	8,453	6,652	6,578	16,073
Adjustments	4,246	(1,801)	(74)	9,495	5,239
Closing Balance Cash and Cash Equivalents	8,453	6,652	6,578	16,073	21,312

Source: Company, KRChoksey Research * Positive due to inflows from sale of animal health business in Q2FY22

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
Adj EBITDA Margin	21.5%	24.0%	23.7%	21.3%	22.2%
Tax rate (%)	21.4%	8.1%	18.0%	25.0%	25.0%
Adj Net Profit Margin (%)	12.1%	16.7%	15.1%	13.1%	13.8%
RoE (%)	14.8%	16.1%	12.1%	10.1%	10.6%
RoCE (%)	11.1%	14.6%	12.1%	11.0%	11.7%
Current Ratio (x)	1.05	1.11	1.56	1.65	1.74
Adj EPS (INR)	16.9	23.5	22.5	20.4	23.5

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Millions	FY20	FY21	FY22	FY23E	FY24E
Non-current assets					
Property, plant and equipment	54,522	55,500	57,616	65,606	74,349
Capital work-in-progress	7,415	7,832	6,610	6,610	6,610
Goodwill (Net)	53,915	53,465	53,646	53,646	53,646
Other intangible assets	13,868	12,363	11,272	9,714	8,010
Investments accounted for using equity method	3,516	3,570	3,743	4,224	4,753
Investments	2,006	2,742	5,605	5,868	6,420
Loans	0	0	0	0	0
Other financial assets	2,860	2,518	2,446	2,561	2,802
Deferred tax assets (Net)	8,529	10,744	10,958	11,472	12,551
Tax assets (Net)	1,506	909	938	982	1,074
Other non-current assets	1,575	2,044	2,506	2,623	2,870
Total non-current assets	1,49,712	1,51,687	1,55,340	1,63,306	1,73,085
Current assets					
Inventories	27,890	32,362	37,194	41,247	43,978
Investments	2,128	1,989	23,532	23,532	23,532
Trade receivables	36,632	31,273	33,403	34,969	38,259
Cash and cash equivalents	8,453	6,652	6,578	16,073	21,312
Bank balances other than (iii) above	1,196	2,231	4,491	4,491	4,491
Loans	0	0	0	0	0
Other financial assets	2,306	2,344	6,664	4,628	5,064
Other current assets + Current Tax Assets	8,549	10,309	9,090	9,053	9,905
Assets classified as held for sale	0	0	1,662	1,662	1,662
Total current assets	87,154	87,160	1,22,614	1,35,655	1,48,203
TOTAL ASSETS	2,36,866	2,38,847	2,77,954	2,98,961	3,21,287
EQUITY AND LIABILITIES					
Equity					
Equity share capital	1,024	1,024	1,024	1,024	1,024
Other equity	1,02,733	1,28,899	1,68,972	1,84,847	2,03,132
Equity attributable to the equity shareholders	1,03,757	1,29,923	1,69,996	1,85,871	2,04,156
Non-controlling interests	13,347	19,373	20,542	21,763	23,169
Total equity	1,17,104	1,49,296	1,90,538	2,07,634	2,27,325
Liabilities					
Non-current liabilities					
Borrowings	32,146	6,095	3,782	3,782	3,782
Other financial liabilities	454	541	449	449	449
Provisions	2,352	3,095	3,250	3,250	3,250
Deferred tax liabilities (Net)	2,099	1,197	1,538	1,538	1,538
Other non-current liabilities + Trade payables	17	10	3	3	3
Total non-current liabilities	37,068	10,938	9,022	9,022	9,022
Current liabilities					
Borrowings	38,265	30,709	38,427	38,427	38,427
Trade payables	20,310	22,059	21,378	23,708	25,277
Other financial liabilities	19,492	19,880	12,525	13,890	14,809
Other current liabilities	1,904	1,782	1,990	2,207	2,353
Provisions	2,432	3,299	3,656	3,656	3,656
Current tax liabilities (Net)	291	884	418	418	418
Total current liabilities	82,694	78,613	78,394	82,305	84,941
Total liabilities	1,19,762	89,551	87,416	91,327	93,963
TOTAL EQUITY AND LIABILITIES	2,36,866	2,38,847	2,77,954	2,98,961	3,21,287

Source: Company, KRChoksey Research

Zydus Lifesciences Ltd.

Cadila Healthcare Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
25-May-22	368	445	BUY	Buy	More than 15%
05-Feb-22	409	445	ACCUMULATE		
01-Nov-21	501	563	ACCUMULATE	Accumulate	5% – 15%
23-Aug-21	547	666	BUY		
13-Aug-21	558	634	ACCUMULATE	Hold	0 – 5%
01-Jun-21	619	684	ACCUMULATE		
07-Aug-20	391	413	ACCUMULATE	Reduce	-5% – 0
22-Jun-20	361	391	ACCUMULATE		
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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