

Rating: BUY | CMP: Rs364 | TP: Rs425

August 11, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	425		450	
Sales (Rs. m)	1,59,983	1,68,867	1,61,377	1,72,749
% Chng.	(0.9)	(2.2)		
EBITDA (Rs. m)	32,830	34,992	34,810	37,227
% Chng.	(5.7)	(6.0)		
EPS (Rs.)	19.4	21.2	21.1	22.4
% Chng.	(8.1)	(5.3)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	1,44,035	1,52,652	1,59,983	1,68,867
EBITDA (Rs. m)	33,871	33,407	32,830	34,992
Margin (%)	23.5	21.9	20.5	20.7
PAT (Rs. m)	22,016	22,416	19,908	21,715
EPS (Rs.)	21.5	21.9	19.4	21.2
Gr. (%)	42.9	1.8	(11.2)	9.1
DPS (Rs.)	4.0	4.0	4.0	4.0
Yield (%)	1.1	1.1	1.1	1.1
RoE (%)	18.8	14.9	11.2	11.2
RoCE (%)	15.1	13.6	11.6	11.7
EV/Sales (x)	2.8	2.6	2.5	2.3
EV/EBITDA (x)	12.1	12.1	12.1	11.1
PE (x)	16.9	16.6	18.7	17.2
P/BV (x)	2.9	2.2	2.0	1.8

Key Data

ZYDU.BO | ZYDUSLIF IN

52-W High / Low	Rs.590 / Rs.319
Sensex / Nifty	58,817 / 17,535
Market Cap	Rs.368bn/ \$ 4,631m
Shares Outstanding	1,012m
3M Avg. Daily Value	Rs.525.84m

Shareholding Pattern (%)

Promoter's	74.88
Foreign	2.86
Domestic Institution	11.92
Public & Others	10.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.6)	(9.3)	(36.9)
Relative	(7.9)	(9.9)	(41.6)

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In-line quarter; US scale-up is key

Quick Pointers:

- Reiterated its +20% OPM for FY23 and 30-35 product launches in US.
- US sales were healthy; grew 7% QoQ.

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. Our FY23E and FY24E EPS stands cut by 8% and 5%. At CMP, stock is trading at 17x FY24E EPS. We recommend 'Buy' with TP of Rs425 (Rs450 earlier) based on 20x FY24E earnings.

- Healthy US sales; weak Domestic formulation:** Cadila Q1FY23 sales was flat YoY (up 5% QoQ) to Rs40.7bn vs our estimate of Rs 40bn. Domestic formulation sales declined by 17% YoY. Ex-COVID, divested products and generics, branded generics portfolio growth came at 9% YoY. Consumer business grew healthy by 18% YoY. US sales came in at USD 202mn (up 7%QoQ), above our estimate. Emerging markets growth was 14% YoY to Rs3.2bn. API saw decline of 9% YoY to Rs1.2bn.
- In-line EBITDA:** GM increased by 150bp QoQ to 61.5%, Adj for one off in Q4-GM were down YoY and QoQ. EBITDA including other operating income came in at Rs8.3bn, in-line with our est. R&D cost came at 7.2% of sales, up 5% YoY. Other expenses were flat YoY, while staff cost increased by 9% YoY and 14% QoQ. Reported PAT came in at Rs5.3bn; in line with our estimate.
- Key concall takeaways:** (1) Volume share gain in base business and contribution from new product launches has neutralized the impact of price erosion and aided QoQ growth in US biz. Price erosion was 2.5% for Q1. (2) Company expects Revlimid launch in near term on final approval and likely to be in second wave of launch. On gAsacol, company do not expect completion till Q4CY22. (3) Moriaya facility was re-inspected and was concluded with 4 observations. Mgmt cited none of the observations were related to data integrity. Clearance of facility will aid new launches in transdermal segment. (4) During Q1FY23, company has filed 8 ANDAs including 3 filings designated as Competitive Generic Therapies (CGT). (5) Growth in consumer wellness business was aided by Glucon-D and Nycil. (6) Reiterate its +20% margin guidance and growth in US sales for FY23 (7) Company is more focused on India and EM market for biologics business with 9 products in pipeline at various stages of clinical trials and early stage of development (8) On the Specialty front, commenced commercial shipment of Nulibry which has recently received positive opinion from the Committee for Medical Products for human use.

Exhibit 1: 1QFY23 Result Overview (Rs mn): In line EBITDA

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Net Sales	40,727	40,018	1.8	38,638	5.4
Raw Material	15,093	13,550	11.4	14,958	0.9
<i>% of Net Sales</i>	<i>37.1</i>	<i>33.9</i>		<i>38.7</i>	
Personnel Cost	6,810	6,236	9.2	5,998	13.5
<i>% of Net Sales</i>	<i>16.7</i>	<i>15.6</i>		<i>15.5</i>	7.7
Others	10,494	10,513	(0.2)	10,505	(0.1)
<i>% of Net Sales</i>	<i>25.8</i>	<i>26.3</i>		<i>27.2</i>	
Total Expenditure	32,397	30,299	6.9	31,461	3.0
EBITDA	8,330	9,719	(14.3)	7,177	16.1
<i>Margin (%)</i>	<i>20.5</i>	<i>24.3</i>		<i>18.6</i>	
Depreciation	1,807	1,733	4.3	1,854	(2.5)
EBIT	6,523	7,986	(18.3)	5,323	22.5
Other Income	659	316	108.5	791	(16.7)
Interest	343	273	25.6	385	(10.9)
PBT	6,839	8,029	(14.8)	5,729	19.4
Extra-Ord. Inc./Exps.	29	-		-	
Total Taxes	1,184	1,574	(24.8)	1,092	8.4
<i>ETR (%)</i>	<i>17.3</i>	<i>19.6</i>		<i>19.1</i>	
Minority interest	(360)	(483)		(513)	
Reported PAT	5,266	5,972	(11.8)	4,124	27.7

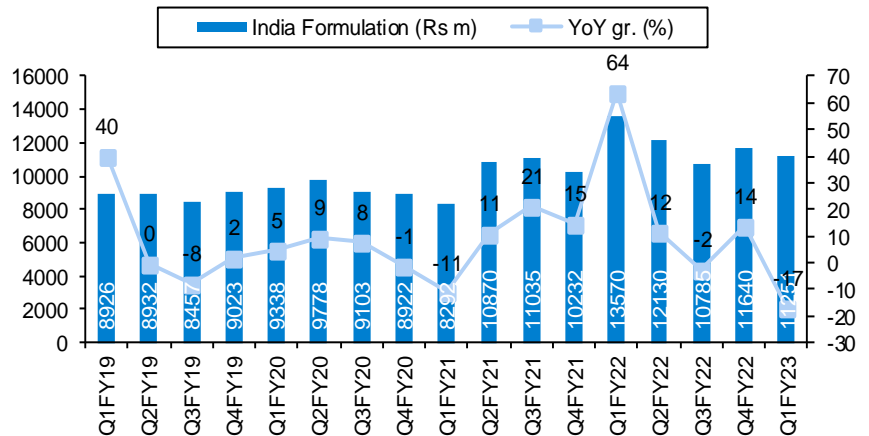
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major Sources of Revenues	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Domestic	18,167	19,428	(6.5)	17,970	1.1
<i>% of Net Sales</i>	<i>46.3</i>	<i>49.9</i>		<i>48.0</i>	
Formulation	11,251	13,570	(17.1)	11,640	(3.3)
<i>% of Net Sales</i>	<i>28.7</i>	<i>34.6</i>		<i>31.1</i>	
Consumer HC & Others	6,916	5,870	17.8	6,330	9.3
<i>% of Net Sales</i>	<i>17.6</i>	<i>15.0</i>		<i>16.9</i>	
Exports	21,062	19,511	7.9	19,488	8.3
<i>% of Net Sales</i>	<i>53.7</i>	<i>50.1</i>		<i>52.0</i>	
Formulation	19,361	17,880	8.3	17,616	9.9
<i>% of Net Sales</i>	<i>49.4</i>	<i>45.6</i>		<i>47.1</i>	
North America	15,592	14,510	7.5	14,233	9.5
EU	614	600	2.3	633	(3.0)
EM	3,155	2,770	13.9	2,750	14.7
API	1,224	1,350	(9.3)	1,363	(10.2)
<i>% of Net Sales</i>	<i>3.1</i>	<i>3.4</i>		<i>3.6</i>	

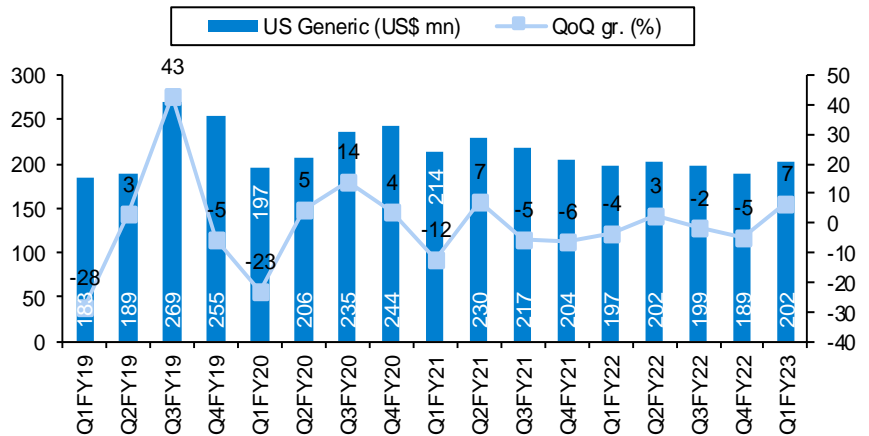
Source: Company, PL

Exhibit 3: India Formulation: de-growth on high base last year



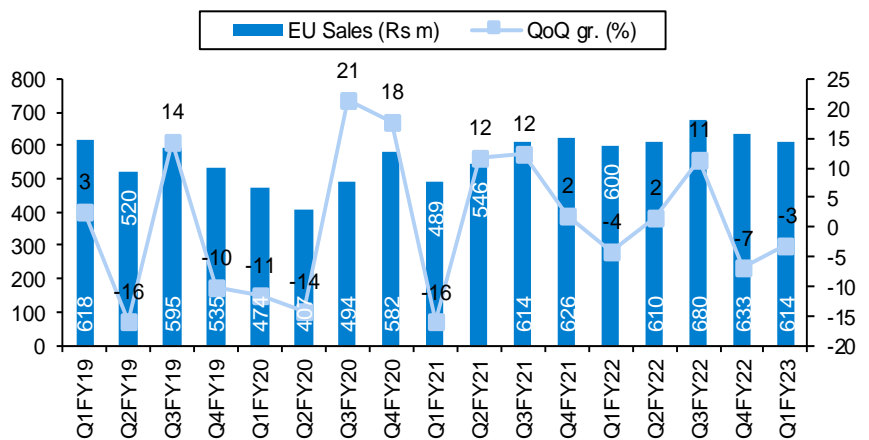
Source: Company, PL

Exhibit 4: US Generic(US\$m): QoQ growth led by volumes & new launches



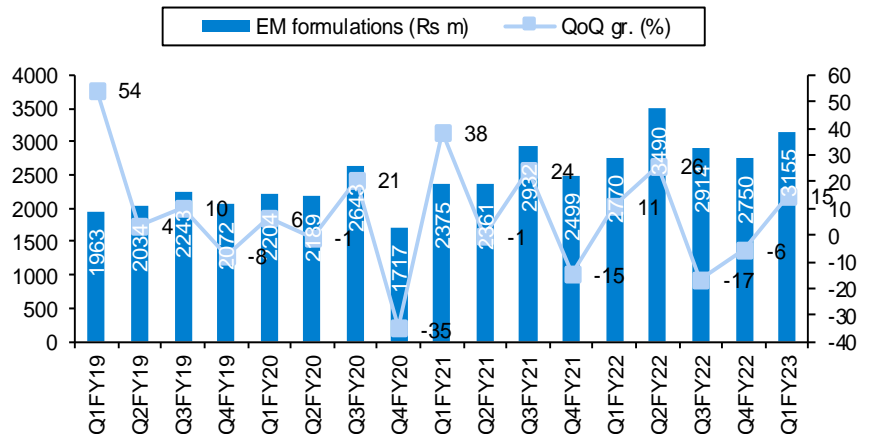
Source: Company, PL

Exhibit 5: EU sales (Rs m) & QoQ Gr(%): In line



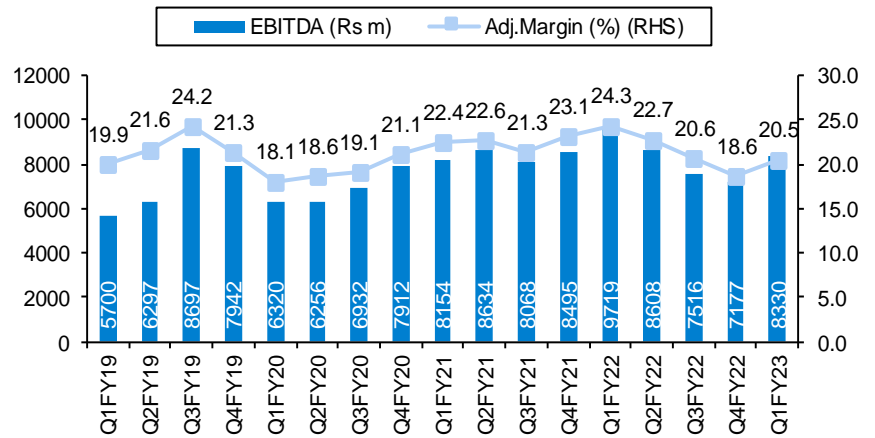
Source: Company, PL

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



Source: Company, PL

Exhibit 7: EBITDA (Rs mn) and Adj.Margin (%): QoQ improvement



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	1,44,035	1,52,652	1,59,983	1,68,867
YoY gr. (%)	1.1	6.0	4.8	5.6
Cost of Goods Sold	48,021	55,452	59,239	61,256
Gross Profit	96,014	97,200	1,00,744	1,07,612
Margin (%)	66.7	63.7	63.0	63.7
Employee Cost	22,951	24,341	26,288	28,391
Other Expenses	8,699	7,427	8,541	9,822
EBITDA	33,871	33,407	32,830	34,992
YoY gr. (%)	24.0	(1.4)	(1.7)	6.6
Margin (%)	23.5	21.9	20.5	20.7
Depreciation and Amortization	6,696	7,130	7,558	8,011
EBIT	27,175	26,277	25,272	26,981
Margin (%)	18.9	17.2	15.8	16.0
Net Interest	1,588	1,270	1,300	1,150
Other Income	456	2,247	1,850	2,000
Profit Before Tax	23,992	28,381	25,822	27,831
Margin (%)	16.7	18.6	16.1	16.5
Total Tax	1,936	5,117	5,164	5,566
Effective tax rate (%)	8.1	18.0	20.0	20.0
Profit after tax	22,056	23,264	20,658	22,265
Minority interest	514	1,310	1,200	1,000
Share Profit from Associate	474	462	450	450
Adjusted PAT	22,016	22,416	19,908	21,715
YoY gr. (%)	42.9	1.8	(11.2)	9.1
Margin (%)	15.3	14.7	12.4	12.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	22,016	22,416	19,908	21,715
YoY gr. (%)	42.9	1.8	(11.2)	9.1
Margin (%)	15.3	14.7	12.4	12.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	22,016	22,416	19,908	21,715
Equity Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	21.5	21.9	19.4	21.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	1,72,979	1,81,315	1,93,315	2,05,315
Tangibles	88,713	92,988	99,142	1,05,297
Intangibles	84,266	88,327	94,173	1,00,018
Acc: Dep / Amortization	51,651	58,781	66,339	74,350
Tangibles	35,914	40,871	46,127	51,697
Intangibles	15,737	17,910	20,212	22,653
Net fixed assets	1,21,328	1,22,534	1,26,976	1,30,965
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	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	32,362	37,194	38,946	41,167
Trade receivables	31,273	33,403	36,782	38,880
Cash & Bank Balance	8,883	11,069	12,022	16,856
Other Current Assets	-	-	-	-
Total Assets	2,28,103	2,66,996	2,79,852	2,95,558
Equity				
Equity Share Capital	1,024	1,024	1,024	1,024
Other Equity	1,28,899	1,68,972	1,84,732	2,02,099
Total Networkth	1,29,923	1,69,996	1,85,756	2,03,123
Non-Current Liabilities				
Long Term borrowings	6,095	3,621	(1,379)	(1,379)
Provisions	6,394	6,906	6,906	6,906
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	39,740	38,339	38,339	35,339
Trade payables	22,059	21,378	23,474	24,813
Other current liabilities	14,066	15,634	15,634	15,634
Total Equity & Liabilities	2,28,103	2,66,996	2,79,852	2,95,558

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	33,871	33,407	32,830	34,992
Add. Depreciation	6,696	7,130	7,558	8,011
Add. Interest	1,588	1,270	1,300	1,150
Less Financial Other Income	456	2,247	1,850	2,000
Add. Other	(7,553)	(10,505)	(8,858)	(9,161)
Op. profit before WC changes	34,602	31,302	32,830	34,992
Net Changes-WC	1,868	(3,515)	(3,035)	(2,980)
Direct tax	(3,450)	(6,746)	(5,164)	(5,566)
Net cash from Op. activities	33,020	21,041	24,631	26,446
Capital expenditures	(8,540)	(12,026)	(12,000)	(12,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(8,540)	(12,026)	(12,000)	(12,000)
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)	(1,300)	(1,150)
Others	9,792	20,460	1,850	2,000
Net cash from Fin. activities	(25,246)	(6,829)	(11,679)	(9,612)
Net change in cash	(766)	2,186	953	4,834
Free Cash Flow	24,480	9,015	12,631	14,446

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	37,848	36,398	38,638	40,727
YoY gr. (%)	(0.9)	(4.1)	5.3	1.8
Raw Material Expenses	13,823	13,334	14,958	15,093
Gross Profit	24,025	23,064	23,680	25,634
Margin (%)	63.5	63.4	61.3	62.9
EBITDA	8,608	7,516	7,177	8,330
YoY gr. (%)	(0.3)	(6.9)	(15.5)	(14.3)
Margin (%)	22.7	20.6	18.6	20.5
Depreciation / Depletion	1,848	1,770	1,854	1,807
EBIT	6,760	5,746	5,323	6,523
Margin (%)	17.9	15.8	13.8	16.0
Net Interest	301	311	385	343
Other Income	533	607	791	659
Profit before Tax	6,992	6,042	5,729	6,839
Margin (%)	18.5	16.6	14.8	16.8
Total Tax	1,000	1,094	1,092	1,184
Effective tax rate (%)	14.3	18.1	19.1	17.3
Profit after Tax	5,992	4,948	4,637	5,655
Minority interest	(27)	(121)	513	360
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,062	5,069	4,124	5,266
YoY gr. (%)	6.9	(3.9)	(41.2)	(11.8)
Margin (%)	13.4	13.9	10.7	12.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,062	5,069	4,124	5,266
YoY gr. (%)	6.9	(3.9)	(41.2)	(11.8)
Margin (%)	13.4	13.9	10.7	12.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,062	5,069	4,124	5,266
Avg. Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	5.9	5.0	4.0	5.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	21.5	21.9	19.4	21.2
CEPS	28.0	28.9	26.8	29.0
BVPS	126.9	166.0	181.4	198.4
FCF	23.9	8.8	12.3	14.1
DPS	4.0	4.0	4.0	4.0
Return Ratio(%)				
RoCE	15.1	13.6	11.6	11.7
ROIC	12.4	10.3	9.4	9.7
RoE	18.8	14.9	11.2	11.2
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.1	0.1
Net Working Capital (Days)	105	118	119	119
Valuation(x)				
PER	16.9	16.6	18.7	17.2
P/B	2.9	2.2	2.0	1.8
P/CEPS	13.0	12.6	13.6	12.5
EV/EBITDA	12.1	12.1	12.1	11.1
EV/Sales	2.8	2.6	2.5	2.3
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	61,661	61,340
Domestic Formulations	40,429	48,125	48,366	53,686
Consumer Healthcare	18,409	19,788	21,767	23,508
Export Formulations (ex-US)	12,442	14,444	15,888	17,505
API	5,621	5,702	6,101	6,528
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	07-Jul-22	BUY	450	366
2	23-May-22	BUY	450	357
3	08-Apr-22	Accumulate	465	369
4	04-Feb-22	Accumulate	465	408
5	07-Jan-22	BUY	590	451
6	01-Nov-21	BUY	590	504

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,110	977
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,750	4,260
7	Eris Lifesciences	BUY	825	695
8	Fortis Healthcare	BUY	330	269
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	396
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	660
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,070	943
19	Torrent Pharmaceuticals	BUY	1,750	1,529
20	Zydus Lifesciences	BUY	450	366

PL's Recommendation Nomenclature (Absolute Performance)

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



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