

CMP: ₹ 430

Target: ₹ 480 (11%)

Target Period: 12 months

HOLD

November 14, 2022

Steady performance; US pipeline, India traction key...

About the stock: Zydus is a leading pharma company with family pedigree having a presence in domestic branded formulations, US generics and is in the process of repurposing itself into niche areas of specialty pharmaceuticals, biosimilars and vaccines.

- FY22 revenue break-up – US: 39%, India: 32%, Wellness: 13%, Europe & emerging markets including countries in LatAm, Asia Pacific & Africa: 10%
- Zydus is the fourth largest pharma company in India with 14 brands among Top 300 pharma brands in India and nine with ₹ 100 crore+ sales

Q2FY23 Results: Zydus delivered an in line performance with our estimates but beat on the US front, driven by gRevlimid launch among others.

- Revenues grew 9.2 % YoY at ₹ 4134 crore
- EBITDA de-grew 5.3% YoY to ₹ 815 crore. EBITDA margins declined 303 bps YoY to 19.7%
- Adjusted net profit declined 11.8% YoY to ₹ 517 crore

What should investors do? Zydus Life's share price has grown by ~1.7x over the past three years (from ~₹ 226 in August 2019 to ~₹ 387 levels in August 2022).

- We maintain **HOLD** rating as we wait for 1) consistency from US business in terms of continued traction in base business and new launches momentum (post Moraiya EIR) and 2) continuum in Wellness and India formulations

Target Price and Valuation: We value Zydus Lifesciences at ₹ 480 (base business of ₹ 455 at 18x P/E on FY24E EPS of ₹ 25.3 + NPV of ₹ 23.5 for gRevlimid opportunity).

Key triggers for future price performance:

- Zydus plans to venture into complex injectable and niche orphan drugs in US. Complex launches likely to provide meaningful traction only from FY24
- Moraiya launch momentum and base business growth (impending competition in Asacol) in the US
- India formulations business is likely to stabilise as the company has optically initiated restructuring of business by rationalising slow moving SKUs
- Pipeline of innovative products like Saroglitazar Magnesium, Desidustat, anti-malarial compound, biologics and 505(b)(2) specialty initiatives

Alternate Stock Idea: Apart from Zydus, in our healthcare coverage we like Cipla.

- Cipla has a long-drawn strategy of targeting four verticals viz. One-India, South Africa & EMs, US generics & specialty and lung leadership
- BUY with a target price of ₹ 1350



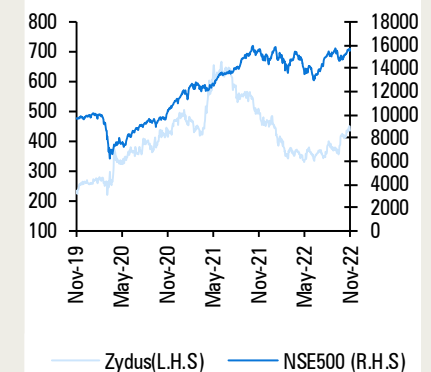
Particulars

| Particular | Amount |
|-----------------------|---------------|
| Market Capitalisation | ₹ 43525 crore |
| Debt (FY22) | ₹ 4196 crore |
| Cash (FY22) | ₹ 1107 crore |
| EV | ₹ 46614 crore |
| 52 week H/L | 577/319 |
| Equity capital | ₹ 101 crore |
| Face value | ₹ 1 |

Shareholding pattern

| (in %) | Dec-21 | Mar-22 | Jun-22 | Sep-22 |
|----------|--------|--------|--------|--------|
| Promoter | 74.9 | 74.9 | 74.9 | 75.0 |
| Others | 25.1 | 25.1 | 25.1 | 25.0 |

Price Chart



Recent Event & Key risks

- Moraiya facility received EIR with VAI status.
- Key Risk:** (i) Higher price erosion in US base business (ii) Better than expected margins

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Key Financial Summary

| Key Financials (₹ crore) | FY20 | FY21 | FY22 | 5 year CAGR (FY17-22) | FY23E | FY24E | 2 year CAGR (FY22-24E) |
|--------------------------|---------|---------|---------|-----------------------|---------|---------|------------------------|
| Revenues | 14253.1 | 14403.5 | 15265.2 | 9.7 | 17002.5 | 18742.3 | 10.8 |
| EBITDA | 2742.0 | 3387.1 | 3340.7 | 11.9 | 3473.7 | 3889.0 | 7.9 |
| EBITDA margins (%) | 19.2 | 23.5 | 21.9 | | 20.4 | 20.8 | |
| Net Profit | 1430.1 | 2390.1 | 2149.2 | 4.0 | 2168.9 | 2588.6 | 9.7 |
| EPS (₹) | 14.0 | 23.3 | 21.0 | | 21.2 | 25.3 | |
| PE (x) | 37.4 | 20.0 | 19.6 | | 20.3 | 17.0 | |
| EV to EBITDA (x) | 18.6 | 14.1 | 14.1 | | 13.1 | 11.2 | |
| RoE (%) | 13.8 | 18.4 | 12.6 | | 11.5 | 12.2 | |
| RoCE (%) | 10.7 | 13.8 | 12.0 | | 11.7 | 12.2 | |

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: In line performance with beat on US front

- Revenues grew 9.2% YoY at ₹ 4134 crore, driven by the US followed by India business. EBITDA de-grew 5.3% YoY to ₹ 815 crore. EBITDA margins declined 303 bps YoY to 19.7 %. India sales increased 4.3 % YoY to ₹ 1265 crores, on the back of market share gains and improved performance in therapies viz. cardiovascular, gynaecology, respiratory and gastro intestinal. Adjusting for Covid, growth was ~11%. US formulations revenues increased 14% YoY to ₹ 1708 crore on the back of 10 new launches especially gRevlimid. Emerging markets revenues declined 5.2% YoY to ₹ 331 crore. This business grew 24% YoY, excluding revenue of Covid related products from the base. Zydus Wellness' revenues increased 12.1% YoY to ₹ 423 crore, Growth during the quarter was led by Glucon-D, Nycil and EverYuth brands. Adjusted PAT declined 11.8% YoY to ₹ 517 crore
- The company's performance was in line with our estimates but was beat on US front mainly due to the launch of gRevlimid. India business continues to do well with market share gain in key therapies. Consumer wellness continues to perform but gross margins were under pressure due to inflationary environment, company will take price hikes to mitigate the effects. We continue to monitor progress India and US as despite size and launch momentum, these two markets have been persistent laggards vis-à-vis peers, thus having direct implications for the company's muted valuations. formulations business is likely to stabilise and grow with the market

Q2FY23 Earnings Conference Call highlights

- Ex-Covid sales growth was 15%
- R&D break up- two-third towards generics and biosimilars, one-third towards NCEs. May tilt towards going ahead. Overall guidance 8%+
- The management has maintained 20% EBITDA margin guidance going ahead
- Covid write off ₹ 120 crore ex of which the margins were 22.6%
- India ex-Covid adjustment growth 11%
- US sales include gRevlimid sales. To be spread over the coming quarters
- Total 25-30 launches planed for US in FY23
- Received 13 final approvals from the USFDA during the quarter and launched 10 products including gRevlimid
- US base business price erosion in mid-single digit, as per management
- Total 30 pending approvals from Moraiya. New launches to commence in two to three months
- Net debt- ₹ 538 crore; Capex during the quarter- ₹ 215 crore

Exhibit 1: Variance Analysis

| | Q2FY23 | Q2FY23E | Q2FY22 | Q1FY23 | YoY (%) | QoQ (%) | Comments |
|-----------------------|--------|---------|--------|--------|----------|---------|--|
| Revenue | 4134.7 | 4094.0 | 3784.8 | 4072.7 | 9.2 | 1.5 | Growth was driven by US followed by India business |
| Raw Material Expenses | 1594.4 | 1494.3 | 1382.3 | 1509.3 | 15.3 | 5.6 | |
| Employee Expenses | 671.7 | 655.0 | 647.7 | 681.0 | 3.7 | -1.4 | |
| Other expenditure | 1053.3 | 1105.4 | 894.0 | 1049.4 | 17.8 | 0.4 | |
| EBITDA | 815.3 | 839.3 | 860.8 | 833.0 | -5.3 | -2.1 | |
| EBITDA (%) | 19.7 | 20.5 | 22.7 | 20.5 | -303 bps | -73 bps | YoY decline due to write off of ₹120 crores of covid inventory, |
| Interest | 35.1 | 32.0 | 30.1 | 34.3 | 16.6 | 2.3 | |
| Depreciation | 181.8 | 204.1 | 184.8 | 180.7 | -1.6 | 0.6 | |
| Other Income | 44.4 | 32.0 | 53.3 | 65.9 | -16.7 | -32.6 | |
| PBT before EO & Forex | 642.8 | 635.2 | 699.2 | 683.9 | -8.1 | -6.0 | |
| EO | 0.0 | 0.0 | 95.7 | 2.9 | 0.0 | 0.0 | |
| PBT | 642.8 | 635.2 | 603.5 | 681.0 | 6.5 | -5.6 | |
| Tax | 137.0 | 127.0 | 100.0 | 118.4 | 37.0 | 15.7 | |
| Tax rate (%) | 21.3 | 20.0 | 16.6 | 17.4 | 28.6 | 22.6 | |
| Net Profit | 517.0 | 491.2 | 506.2 | 526.6 | 2.1 | -1.8 | |
| Adjusted PAT | 517.0 | 491.2 | 586.0 | 529.0 | -11.8 | -2.3 | Delta vis-à-vis EBITDA. |
| Key Metrics | | | | | | | |
| India | 1264.8 | 1220.9 | 1213 | 1125.1 | 4.3 | 12.4 | The business grew by 11% YoY, ex-COVID opportunities, and divested products |
| US | 1708.4 | 1535.2 | 1498 | 1559.2 | 14.0 | 9.6 | Growth was driven by launch of 10 new products including gRevlimid |
| Europe | 54.1 | 65.9 | 61 | 61.4 | -11.3 | -11.9 | |
| EMs | 330.8 | 304.7 | 349 | 315.5 | -5.2 | 4.8 | |
| Wellness | 422.7 | 422.0 | 377 | 691.6 | 12.1 | -38.9 | Growth during the quarter was led by Glucon-D, Nycil and EverYuth brands, but inflationary pressure persists |
| JVs | 50.2 | 51.0 | 55 | 47.7 | -8.7 | 5.2 | |
| APIs | 111.7 | 142.3 | 134 | 122.4 | -16.6 | -8.7 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| ₹ Crore) | FY23E | | | FY24E | | | Comments |
|-------------------|----------|----------|----------|----------|----------|----------|---|
| | Old | New | % Change | Old | New | % Change | |
| Revenue | 16,737.0 | 17,002.5 | 1.6 | 18,152.0 | 18,742.3 | 3.3 | Changed due to robust pipeline of products in US and steady guidance for India both wellness and formulations |
| EBITDA | 3,427.8 | 3,473.7 | 1.3 | 3,761.0 | 3,889.0 | 3.4 | |
| EBITDA Margin (%) | 20.5 | 20.4 | -7 bps | 20.8 | 20.8 | -5 bps | |
| Adj. PAT | 2,149.5 | 2,168.9 | 0.9 | 2,435.3 | 2,588.6 | 6.3 | |
| EPS (₹) | 21.0 | 21.2 | 0.9 | 23.8 | 25.3 | 6.2 | |

Source: ICICI Direct Research

Exhibit 3: Assumptions

| ₹ crore) | Current | | | Earlier | | | Comments |
|----------|---------|---------|---------|---------|---------|---------|---|
| | FY21 | FY22 | FY23E | FY24E | FY23E | FY24E | |
| India | 4,042.9 | 4,812.5 | 5,076.6 | 5,584.3 | 5,109.7 | 5,620.7 | |
| US | 6,350.5 | 5,813.8 | 6,779.7 | 7,507.9 | 6,511.2 | 6,885.5 | Changed mainly due to new launch momentum |
| Europe | 227.5 | 252.3 | 259.2 | 285.1 | 272.2 | 299.4 | |
| EMs | 1,016.7 | 1,192.1 | 1,326.8 | 1,486.0 | 1,362.5 | 1,525.9 | |
| Wellness | 1,840.9 | 1,978.8 | 2,231.7 | 2,454.8 | 2,223.7 | 2,457.1 | |
| JVs | 84.4 | 207.9 | 210.1 | 220.6 | 211.4 | 221.9 | |
| APIs | 562.1 | 570.2 | 562.2 | 590.3 | 588.5 | 617.9 | |

Source: ICICI Direct Research

Exhibit 4: Financial Summary

| | Revenues | Growth | EPS | Growth | P/E | EV/EBITDA | RoE | RoCE |
|-------|-----------|--------|------|--------|------|-----------|------|------|
| | (₹ crore) | (%) | (₹) | (%) | (x) | (X) | (%) | (%) |
| FY21 | 14404 | 1.1 | 23.3 | 67.1 | 20.0 | 14.1 | 18.4 | 13.8 |
| FY22 | 15265 | 6.0 | 21.0 | -10.1 | 19.6 | 14.1 | 12.6 | 12.0 |
| FY23E | 17003 | 11.4 | 21.2 | 0.9 | 20.3 | 13.1 | 11.5 | 11.7 |
| FY24E | 18742 | 10.2 | 25.3 | 19.4 | 17.0 | 11.2 | 12.2 | 12.2 |

Source: ICICI Direct Research

Exhibit 5: Revenue Mix

| (₹ crore) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | CAGR (FY17-22) | % CAGR (FY22-24E) | % |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------------|-------------------|------|
| India | 2,983 | 3,244 | 3,333 | 3,534 | 3,714 | 4,043 | 4,813 | 5,077 | 5,584 | | 8.2 | 7.7 |
| US | 4,022 | 3,709 | 5,835 | 6,280 | 6,251 | 6,351 | 5,814 | 6,780 | 7,508 | | 9.4 | 13.6 |
| Europe | 295 | 262 | 240 | 227 | 196 | 228 | 252 | 259 | 285 | | -0.8 | 6.3 |
| EMs | 690 | 749 | 762 | 831 | 875 | 1,017 | 1,192 | 1,327 | 1,486 | | 9.7 | 11.6 |
| Wellness | 432 | 459 | 492 | 808 | 1,738 | 1,841 | 1,979 | 2,232 | 2,455 | | 33.9 | 11.4 |
| JVs | 263 | 159 | 159 | 132 | 70 | 84 | 208 | 210 | 221 | | 5.5 | 3.0 |
| Total APIs | 365 | 380 | 366 | 425 | 453 | 562 | 570 | 562 | 590 | | 8.5 | 1.7 |

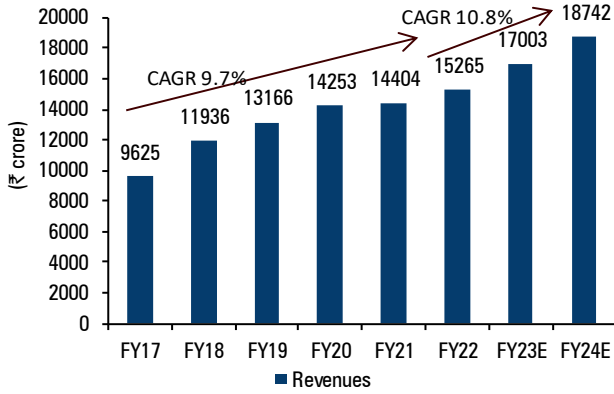
Source: ICICI Direct Research

Exhibit 6: Trends in Quarterly Performance

| (₹ Crore) | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q4FY22 | Q1FY23 | Q2FY23 | YoY (%) | QoQ (%) |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| Sales | 3638.1 | 3752.1 | 3514.7 | 3820.0 | 3795.6 | 3670.3 | 4001.8 | 3784.8 | 3639.8 | 3863.8 | 3863.8 | 4072.7 | 4134.7 | 13.6 | 1.5 |
| Raw Material Expen | 1244.3 | 1259.7 | 1250.3 | 1322.3 | 1293.5 | 1236.4 | 1355.0 | 1382.3 | 1333.4 | 1495.8 | 1495.8 | 1509.3 | 1594.4 | 19.6 | 5.6 |
| % of revenue | 34.2 | 33.6 | 35.6 | 34.6 | 34.1 | 33.7 | 33.9 | 36.5 | 36.6 | 38.7 | 38.7 | 37.1 | 38.6 | | |
| Gross Profit | 2393.8 | 2492.4 | 2264.4 | 2497.7 | 2502.1 | 2433.9 | 2646.8 | 2402.5 | 2306.4 | 2368.0 | 2368.0 | 2563.4 | 2540.3 | 10.1 | -0.9 |
| % of revenue | 65.8 | 66.4 | 64.4 | 65.4 | 65.9 | 66.3 | 66.1 | 63.5 | 63.4 | 61.3 | 61.3 | 62.9 | 61.4 | -193 bps | -150 bps |
| Employee Expenses | 619.0 | 609.0 | 634.5 | 616.5 | 628.6 | 580.1 | 623.6 | 647.7 | 591.2 | 599.8 | 599.8 | 681.0 | 671.7 | 13.6 | -1.4 |
| % of revenue | 17.0 | 16.2 | 18.1 | 16.1 | 16.6 | 15.8 | 15.6 | 17.1 | 16.2 | 15.5 | 15.5 | 16.7 | 16.2 | | |
| Other Expenditure | 1081.6 | 1092.2 | 939.7 | 1017.8 | 1066.6 | 1004.3 | 1051.3 | 894.0 | 963.6 | 1050.5 | 1050.5 | 1049.4 | 1053.3 | 9.3 | 0.4 |
| % of revenue | 29.7 | 29.1 | 26.7 | 26.6 | 28.1 | 27.4 | 26.3 | 23.6 | 26.5 | 27.2 | 27.2 | 25.8 | 25.5 | | |
| Total Expenditure | 2944.9 | 2960.9 | 2824.5 | 2956.6 | 2988.7 | 2820.8 | 3029.9 | 2924.0 | 2888.2 | 3146.1 | 3146.1 | 3239.7 | 3319.4 | 14.9 | 2.5 |
| % of revenue | 80.9 | 78.9 | 80.4 | 77.4 | 78.7 | 76.9 | 75.7 | 77.3 | 79.4 | 81.4 | 81.4 | 79.5 | 80.3 | | |
| EBITDA | 693.2 | 791.2 | 690.2 | 863.4 | 806.9 | 849.5 | 971.9 | 860.8 | 751.6 | 717.7 | 717.7 | 833.0 | 815.3 | 8.5 | -2.1 |
| EBITDA Margins (%) | 19.1 | 21.1 | 19.6 | 22.6 | 21.3 | 23.1 | 24.3 | 22.7 | 20.6 | 18.6 | 18.6 | 20.5 | 19.7 | -93 bps | -73 bps |
| Depreciation | 174.1 | 178.5 | 176.8 | 179.0 | 180.4 | 175.3 | 173.3 | 184.8 | 177.0 | 185.4 | 185.4 | 180.7 | 181.8 | 2.7 | 0.6 |
| Interest | 80.5 | 82.5 | 67.7 | 45.7 | 26.8 | 23.2 | 27.3 | 30.1 | 31.1 | 38.5 | 38.5 | 34.3 | 35.1 | 12.9 | 2.3 |
| Other Income | 20.1 | 44.3 | 22.5 | 27.5 | 27.5 | -30.4 | 31.6 | 53.3 | 60.7 | 79.1 | 79.1 | 65.9 | 44.4 | -26.9 | -32.6 |
| Forex & EO | -1.6 | -52.5 | 0.0 | -132.0 | 0.0 | -73.1 | 0.0 | -95.7 | 0.0 | 0.0 | 0.0 | -2.9 | 0.0 | | |
| PBT | 457.1 | 522.0 | 468.2 | 534.2 | 627.2 | 547.5 | 802.9 | 603.5 | 604.2 | 572.9 | 572.9 | 681.0 | 642.8 | 6.4 | -5.6 |
| Total Tax | 92.7 | 108.5 | 123.5 | 110.6 | 114.7 | -206.0 | 157.4 | 100.0 | 109.4 | 109.2 | 109.2 | 118.4 | 137.0 | 25.2 | 15.7 |
| Tax rate (%) | 20.3 | 20.8 | 26.4 | 20.7 | 18.3 | -37.6 | 19.6 | 16.6 | 18.1 | 19.1 | 19.1 | 17.4 | 21.3 | 320.6 | 392.7 |
| PAT before MI | 364.4 | 413.5 | 344.7 | 423.6 | 512.5 | 753.5 | 645.5 | 503.5 | 494.8 | 463.7 | 463.7 | 562.6 | 505.8 | 2.2 | -10.1 |
| Minority Interest | -2.5 | 21.8 | 32.6 | -38.4 | 0.8 | 56.4 | 55.3 | 9.6 | 10.2 | 55.9 | 55.9 | 58.1 | 3.6 | -64.7 | -93.8 |
| PAT | 373.9 | 391.9 | 328.8 | 473.4 | 527.2 | 700.9 | 597.2 | 506.2 | 506.9 | 412.4 | 412.4 | 526.6 | 517.0 | 2.0 | -1.8 |
| Adjusted PAT | 375.2 | 433.5 | 328.8 | 578.1 | 527.2 | 801.5 | 597.2 | 586.0 | 506.9 | 412.4 | 412.4 | 529.0 | 517.0 | 2.0 | -2.3 |
| Adjusted EPS (₹) | 3.7 | 4.2 | 3.2 | 5.6 | 5.1 | 7.8 | 5.8 | 5.7 | 5.0 | 4.0 | 4.0 | 5.2 | 5.1 | | |

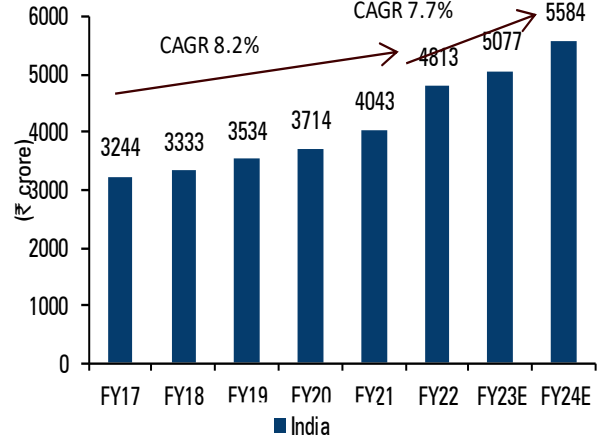
Source: ICICI Direct Research

Exhibit 7: Revenue to grow at 10.8% CAGR over FY22-24E



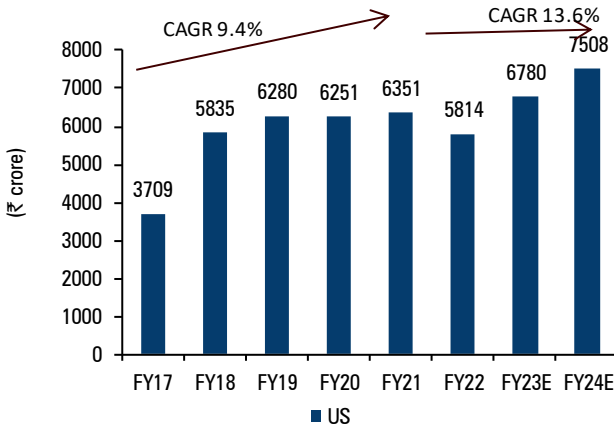
Source: ICICI Direct Research, Company

Exhibit 8: Domestic to grow at ~7.7% CAGR in FY22-24E



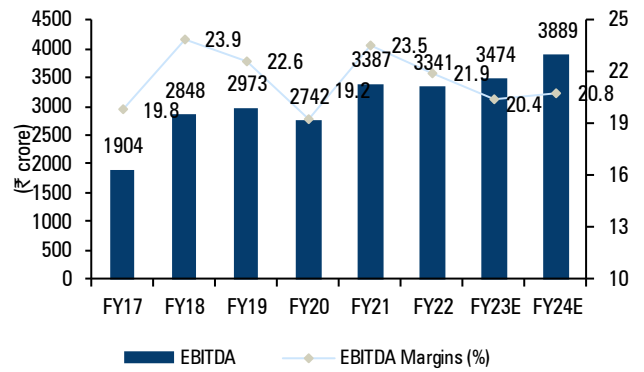
Source: ICICI Direct Research, Company

Exhibit 9: US to grow at ~13.6% over FY22-24E



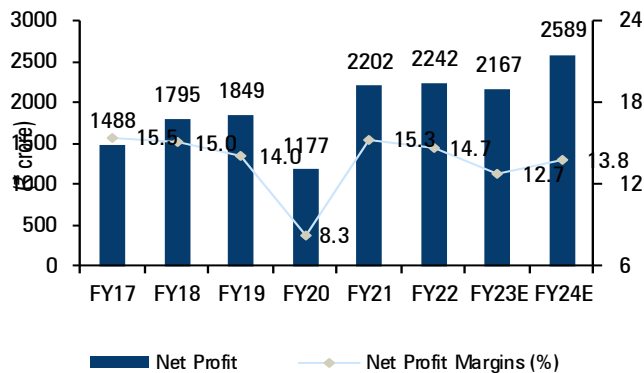
Source: ICICI Direct Research, Company

Exhibit 10: EBITDA & EBITDA margins trend



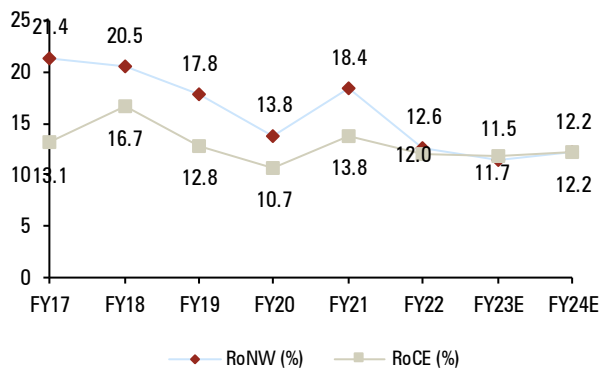
Source: ICICI Direct Research, Company

Exhibit 11: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 12: RoE & RoCE trend



Source: ICICI Direct Research, Company

Exhibit 13: ICICI Direct Coverage Universe (Healthcare)

| Company | I-Direct Code | CMP (₹) | TP (₹) | Rating | M Cap (₹ cr) | EPS (₹) | | | | PE(x) | | | | RoCE (%) | | | | RoE (%) | | | |
|----------------------|---------------|---------|--------|--------|--------------|---------|-------|-------|-------|-------|------|-------|-------|----------|------|-------|-------|---------|------|-------|-------|
| | | | | | | FY21 | FY22 | FY23E | FY24E | FY21 | FY22 | FY23E | FY24E | FY21 | FY22 | FY23E | FY24E | FY21 | FY22 | FY23E | FY24E |
| Hospitals | | | | | | | | | | | | | | | | | | | | | |
| Apollo Hospitals | APOHOS | 4285 | 5,230 | Buy | 61710 | 7.9 | 59.1 | 79.0 | 101.0 | 545.2 | 72.5 | 54.3 | 42.4 | 6.3 | 15.1 | 15.3 | 18.8 | 2.5 | 15.1 | 17.4 | 18.9 |
| Narayana Hrudalaya | NARHRU | 767 | 855 | Buy | 15655 | -0.7 | 16.7 | 20.6 | 22.7 | NA | 45.9 | 37.3 | 33.8 | 1.2 | 20.5 | 19.6 | 19.7 | -1.3 | 23.0 | 22.3 | 19.9 |
| Shalby | SHALIM | 146 | 150 | Buy | 1575 | 3.9 | 5.4 | 7.5 | 9.9 | 37.1 | 26.9 | 19.5 | 14.8 | 6.5 | 8.4 | 11.7 | 14.3 | 5.1 | 6.7 | 8.6 | 10.4 |
| Aster DM | ASTDM | 265 | 250 | Buy | 13250 | 3.0 | 10.5 | 10.8 | 16.7 | 89.6 | 25.2 | 24.6 | 15.9 | 5.4 | 9.0 | 9.4 | 12.5 | 4.4 | 13.3 | 12.0 | 15.6 |
| Healthcare Global | HEAGLO | 296 | 380 | Buy | 4114 | -13.9 | 3.9 | 4.5 | 8.8 | -13.9 | 76.6 | 65.1 | 33.5 | -0.9 | 5.0 | 9.4 | 12.1 | -0.9 | 5.0 | 6.8 | 11.6 |
| MNC Pharma | | | | | | | | | | | | | | | | | | | | | |
| Abbott India | ABBIND | 19175 | 21,140 | Hold | 40268 | 325.0 | 375.9 | 427.7 | 528.6 | 59.0 | 51.0 | 44.8 | 36.3 | 33.8 | 36.6 | 37.1 | 37.3 | 26.5 | 28.3 | 28.9 | 28.8 |
| P&G Health | MERLIM | 4230 | 4,500 | Hold | 7191 | 106.5 | 116.0 | 124.8 | 140.6 | 39.7 | 36.5 | 33.9 | 30.1 | 32.2 | 39.8 | 36.0 | 33.8 | 25.1 | 31.2 | 28.1 | 26.2 |
| Sanofi India | SANOFI | 5623 | 6,385 | Hold | 12932 | 207.4 | 410.1 | 270.5 | 264.8 | 27.1 | 13.7 | 20.8 | 21.2 | 32.3 | 33.3 | 41.1 | 50.7 | 24.5 | 25.9 | 31.2 | 38.7 |
| Pfizer | PFIZER | 4339 | 4,480 | Hold | 19960 | 108.8 | 133.9 | 140.4 | 149.3 | 39.9 | 32.4 | 30.9 | 29.1 | 27.6 | 26.1 | 22.4 | 21.8 | 20.8 | 21.4 | 17.9 | 17.7 |
| Pharma | | | | | | | | | | | | | | | | | | | | | |
| Ajanta Pharma | AJAPHA | 1254 | 1,505 | Buy | 16046 | 51.0 | 55.6 | 60.1 | 71.1 | 24.6 | 22.5 | 20.9 | 17.6 | 29.0 | 27.0 | 24.4 | 24.5 | 21.8 | 21.8 | 19.9 | 19.9 |
| Alembic Pharma | ALEMPHA | 638 | 625 | Reduce | 12569 | 62.8 | 27.8 | 15.3 | 26.9 | 10.2 | 23.0 | 41.7 | 23.7 | 25.1 | 10.6 | 6.5 | 10.5 | 24.1 | 10.4 | 5.6 | 9.1 |
| Aurobindo Pharma | AURPHA | 478 | 615 | Hold | 27999 | 55.0 | 47.4 | 41.1 | 51.3 | 8.7 | 10.1 | 11.6 | 9.3 | 16.9 | 12.9 | 11.5 | 13.3 | 14.7 | 11.3 | 9.0 | 10.1 |
| Biocon | BIOCON | 277 | 320 | Hold | 33268 | 6.3 | 5.7 | 5.5 | 11.3 | 44.2 | 48.6 | 50.8 | 24.4 | 7.7 | 7.5 | 4.1 | 6.5 | 9.9 | 8.1 | 2.8 | 5.5 |
| Zydus Lifesciences | CADHEA | 434 | 405 | Hold | 45043 | 23.3 | 21.0 | 21.0 | 23.8 | 18.6 | 20.7 | 20.7 | 18.2 | 13.8 | 12.0 | 11.8 | 11.7 | 18.4 | 12.6 | 11.4 | 11.6 |
| Cipla | CIPLA | 1125 | 1,350 | Buy | 90747 | 29.9 | 32.9 | 38.6 | 45.8 | 37.6 | 34.2 | 29.2 | 24.5 | 16.3 | 16.7 | 17.9 | 19.0 | 13.1 | 12.7 | 13.3 | 14.1 |
| Dr Reddy's Labs | DRREDD | 4549 | 4,750 | Buy | 75521 | 117.3 | 126.9 | 203.4 | 191.0 | 38.8 | 35.8 | 22.4 | 23.8 | 13.1 | 13.0 | 19.1 | 18.1 | 11.1 | 11.0 | 15.4 | 13.0 |
| Glenmark Pharma | GLEPHA | 414 | 440 | Hold | 11675 | 32.9 | 42.7 | 39.5 | 44.9 | 12.6 | 9.7 | 10.5 | 9.2 | 13.9 | 14.8 | 14.7 | 14.4 | 13.1 | 13.2 | 11.0 | 11.2 |
| Ipca Laboratories | IPCLAB | 888 | 985 | Hold | 22564 | 44.9 | 34.8 | 27.5 | 35.1 | 19.8 | 25.5 | 32.4 | 25.3 | 27.1 | 17.4 | 14.3 | 16.3 | 24.2 | 16.1 | 11.4 | 13.0 |
| Jubilant Pharmova | JUBLIF | 388 | 340 | Hold | 6161 | 37.4 | 26.0 | 15.9 | 26.1 | 10.4 | 14.9 | 24.4 | 14.8 | 13.7 | 9.0 | 6.1 | 8.6 | 12.6 | 7.8 | 4.6 | 7.0 |
| Lupin | LUPIN | 719 | 680 | Reduce | 32730 | 26.9 | 11.9 | 11.8 | 27.7 | 26.8 | 60.6 | 61.1 | 26.0 | 9.6 | 3.4 | 5.8 | 10.9 | 8.8 | 4.4 | 4.2 | 9.2 |
| Natco Pharma | NATPHA | 585 | 735 | Hold | 10704 | 24.2 | 9.3 | 41.6 | 42.3 | 24.2 | 62.8 | 14.1 | 13.8 | 13.1 | 4.6 | 18.1 | 16.9 | 10.7 | 4.0 | 15.5 | 13.9 |
| Sun Pharma | SUNPHA | 1011 | 1,225 | Buy | 242455 | 30.0 | 32.0 | 34.8 | 40.1 | 33.6 | 31.6 | 29.0 | 25.2 | 14.2 | 18.2 | 18.0 | 18.7 | 15.5 | 16.0 | 15.2 | 15.2 |
| Torrent Pharma | TORPHA | 1665 | 1,730 | Hold | 56292 | 37.0 | 32.0 | 40.0 | 46.7 | 45.0 | 52.0 | 41.6 | 35.7 | 17.6 | 19.7 | 19.1 | 21.4 | 21.4 | 18.2 | 19.8 | 19.7 |
| Indoco Remedies | INDREM | 359 | 465 | Buy | 3303 | 10.1 | 16.8 | 21.6 | 29.2 | 35.6 | 21.4 | 16.6 | 12.3 | 11.7 | 17.5 | 17.6 | 23.9 | 12.1 | 17.1 | 18.6 | 20.6 |
| Caplin Point | CAPPOI | 734 | 955 | Buy | 5578 | 81.7 | 85.3 | 70.4 | 73.0 | 9.0 | 8.6 | 10.4 | 10.1 | 25.3 | 23.7 | 22.6 | 0.0 | 20.4 | 20.2 | 18.7 | 17.5 |
| Advanced Enzymes | ADVENZ | 292 | 265 | Reduce | 3270 | 13.1 | 10.7 | 8.5 | 12.1 | 22.3 | 27.3 | 34.5 | 24.2 | 19.4 | 14.3 | 10.2 | 13.2 | 15.1 | 11.0 | 8.1 | 10.4 |
| Hester Biosciences | HESPHA | 2000 | 2,070 | HOLD | 1741 | 44.4 | 45.7 | 35.9 | 51.8 | 43.6 | 42.3 | 53.9 | 37.4 | 16.2 | 10.9 | 9.3 | 11.8 | 16.5 | 15.0 | 10.8 | 14.0 |
| API/CRAMS | | | | | | | | | | | | | | | | | | | | | |
| Divi's Lab | DIVLAB | 3287 | 3,685 | HOLD | 87099 | 74.7 | 111.5 | 93.0 | 113.5 | 44.0 | 29.5 | 35.3 | 29.0 | 27.6 | 30.2 | 22.8 | 24.4 | 21.3 | 25.2 | 18.4 | 19.2 |
| Hikal | HIKCHE | 343 | 330 | Reduce | 4223 | 10.8 | 13.0 | 3.8 | 14.4 | 31.8 | 26.4 | 89.6 | 23.8 | 15.1 | 13.6 | 5.6 | 13.8 | 14.3 | 15.0 | 4.3 | 14.2 |
| Syngene Int. | SYNINT | 606 | 710 | Buy | 24311 | 10.1 | 9.9 | 11.5 | 14.6 | 59.9 | 61.5 | 52.6 | 41.6 | 11.5 | 11.7 | 12.8 | 15.2 | 13.5 | 12.9 | 12.4 | 13.7 |
| Granules India | GRANUL | 359 | 375 | Buy | 8906 | 22.2 | 16.6 | 21.9 | 26.8 | 16.2 | 21.6 | 16.4 | 13.4 | 24.0 | 15.6 | 18.6 | 20.5 | 25.3 | 16.0 | 17.6 | 17.9 |
| Laurus Labs | LAULAB | 451 | 675 | Buy | 24208 | 18.3 | 15.4 | 20.7 | 27.0 | 24.6 | 29.3 | 21.7 | 16.7 | 31.7 | 21.3 | 23.6 | 26.0 | 37.9 | 24.7 | 25.6 | 25.6 |
| Suven Pharmaceutical | SUVPH | 438 | 530 | BUY | 11158 | 14.2 | 17.8 | 17.0 | 17.6 | 30.7 | 24.5 | 25.8 | 24.8 | 31.2 | 37.5 | 28.7 | 25.0 | 30.7 | 29.7 | 23.0 | 20.0 |

Source: ICICI Direct Research

Financial Summary

| Exhibit 14: Profit and loss statement | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Revenues | 14,403.5 | 15,265.2 | 17,002.5 | 18,742.3 |
| Growth (%) | 1.1 | 6.0 | 11.4 | 10.2 |
| Raw Material Expense | 4,802.1 | 5,545.2 | 6,270.0 | 6,653.5 |
| Employee Expenses | 2,295.1 | 2,434.1 | 2,781.5 | 3,139.3 |
| Other expenses | 3,919.2 | 3,945.2 | 4,477.4 | 5,060.4 |
| Total Operating Exp | 11,016.4 | 11,924.5 | 13,528.8 | 14,853.3 |
| EBITDA | 3,387.1 | 3,340.7 | 3,473.7 | 3,889.0 |
| Growth (%) | 23.5 | -1.4 | 4.0 | 12.0 |
| Depreciation | 669.6 | 713.0 | 756.7 | 824.5 |
| Interest | 158.8 | 127.0 | 139.6 | 95.9 |
| Other Income | 45.6 | 224.7 | 206.9 | 145.0 |
| Less: Exceptional It | 205.1 | -112.7 | 2.9 | 0.0 |
| PBT after Excep | 2,399.2 | 2,838.1 | 2,781.4 | 3,113.7 |
| Total Tax | 193.6 | 511.7 | 566.1 | 622.7 |
| Minority Interest | 51.4 | 131.0 | 122.5 | 135.1 |
| PAT | 2,201.6 | 2,241.6 | 2,166.6 | 2,588.6 |
| Adjusted PAT | 2,390.1 | 2,149.2 | 2,168.9 | 2,588.6 |
| Growth (%) | 67.1 | -10.1 | 0.9 | 19.4 |
| EPS (Adjusted) | 23.3 | 21.0 | 21.2 | 25.3 |

Source: Company, ICICI Direct Research

| Exhibit 15: Cash flow statement | | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Profit/(Loss) after taxation | 1,939.8 | 4,557.7 | 2,166.6 | 2,588.6 |
| Add: Depreciation | 724.8 | 736.1 | 756.7 | 824.5 |
| Net Increase in Current Assets | -125.0 | -425.9 | -1,001.4 | -806.6 |
| Net Increase in Current Liabilities | 311.8 | 74.4 | 387.4 | 262.6 |
| Other Operating Activities | 441.6 | -2838.2 | 139.6 | 95.9 |
| CF from operating activities | 3,293.0 | 2,104.1 | 2,449.0 | 2,965.0 |
| (Inc)/dec in Fixed Assets | -743.4 | -1,167.2 | -600.0 | -600.0 |
| Loan & Advances | 0.0 | 0.0 | -53.0 | -57.8 |
| (Inc)/dec in MI | 0.0 | 0.0 | 122.5 | 135.1 |
| Other Investing Activities | -77.3 | 150.0 | -50.0 | -54.5 |
| CF from investing activities | -820.7 | -1,017.2 | -580.6 | -577.2 |
| Inc/(dec) in loan funds | -3,342.7 | -385.0 | -1,000.0 | -1,000.0 |
| Dividend paid & dividend tax | -1.5 | -372.2 | -230.3 | -281.5 |
| Inc/(dec) in forex reserve | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Paid | -191.3 | -111.1 | -139.6 | -95.9 |
| Other Financing Activities | 986.6 | 0.0 | 0.0 | 0.0 |
| CF from financing activities | -2,548.9 | -868.3 | -1,369.9 | -1,377.4 |
| Net Cash flow | -76.6 | 218.6 | 498.5 | 1,010.4 |
| Opening Cash | 964.9 | 888.3 | 1,106.9 | 1,605.4 |
| Closing Cash | 888.3 | 1,106.9 | 1,605.4 | 2,615.8 |
| Free Cash Flow | 2,549.6 | 936.9 | 1,849.0 | 2,365.0 |

Source: Company, ICICI Direct Research

| Exhibit 16: Balance Sheet | | | | |
|---------------------------|-----------------|-----------------|-----------------|-----------------|
| | ₹ crore | | | |
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Equity Capital | 102.4 | 102.4 | 101.2 | 101.2 |
| Reserve and Surplu | 12,889.9 | 16,897.2 | 18,834.6 | 21,141.7 |
| Total Shareholders | 12,992.3 | 16,999.6 | 18,935.9 | 21,243.0 |
| Total Debt | 4,592.5 | 4,196.0 | 3,196.0 | 2,196.0 |
| Deferred Tax Liabilit | 119.7 | 153.8 | 167.6 | 182.7 |
| Minority Interest | 1,937.3 | 2,054.2 | 2,176.7 | 2,311.8 |
| Other Non Curr. Liab | 364.6 | 386.3 | 421.1 | 459.0 |
| Total Liabilities | 20,006.4 | 23,789.9 | 24,897.2 | 26,392.4 |
| Gross Block - Fixed | 11,988.2 | 12,340.9 | 13,140.9 | 13,740.9 |
| Less: Acc Deprecia | 5,201.9 | 5,452.1 | 6,208.8 | 7,033.3 |
| Net Block | 6,786.3 | 6,888.8 | 6,932.1 | 6,707.6 |
| Capital WIP | 783.2 | 661.0 | 461.0 | 461.0 |
| Total Fixed Assets | 7,569.5 | 7,549.8 | 7,393.1 | 7,168.6 |
| Goodwill on Consoli | 5,346.5 | 5,364.6 | 5,364.6 | 5,364.6 |
| Investment | 830.1 | 3,288.0 | 3,288.0 | 3,288.0 |
| Inventory | 3,236.2 | 3,719.4 | 4,205.5 | 4,462.8 |
| Debtors | 3,127.3 | 3,340.3 | 3,698.8 | 4,077.3 |
| Other Current Asset | 1,265.3 | 1,741.6 | 1,898.3 | 2,069.2 |
| Cash | 888.3 | 1,106.9 | 1,605.4 | 2,615.8 |
| Total Current Asset | 8,517.1 | 9,908.2 | 11,408.1 | 13,225.0 |
| Creditors | 2,205.9 | 2,137.8 | 2,417.2 | 2,565.1 |
| Provisions | 329.9 | 365.6 | 398.5 | 434.4 |
| Other Current Liabili | 1,342.5 | 1,502.1 | 1,577.2 | 1,656.1 |
| Total Current Liabilit | 3,878.3 | 4,005.5 | 4,392.9 | 4,655.5 |
| Deferred Tax Asset | 1,074.4 | 1,095.8 | 1,194.4 | 1,301.9 |
| Net Current Assets | 4,638.8 | 5,902.7 | 7,015.1 | 8,569.5 |
| Long term Loans ar | 547.1 | 589.0 | 642.0 | 699.8 |
| Application of F | 20,006.4 | 23,789.9 | 24,897.2 | 26,392.4 |

Source: Company, ICICI Direct Research

| Exhibit 17: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Per share data (₹) | | | | |
| Adjusted EPS | 23.3 | 21.0 | 21.2 | 25.3 |
| BV per share | 126.9 | 166.1 | 185.0 | 207.5 |
| Dividend per share | 3.5 | 2.5 | 2.3 | 2.8 |
| Cash Per Share | 8.7 | 10.8 | 15.7 | 25.6 |
| Operating Ratios (%) | | | | |
| Gross Profit Margins | 66.7 | 63.7 | 63.1 | 64.5 |
| EBITDA margins | 23.5 | 21.9 | 20.4 | 20.8 |
| Net Profit margins | 16.6 | 14.1 | 12.8 | 13.8 |
| Inventory days | 246.0 | 244.8 | 244.8 | 244.8 |
| Debtor days | 79.2 | 79.9 | 79.4 | 79.4 |
| Creditor days | 167.7 | 140.7 | 140.7 | 140.7 |
| Asset Turnover | 1.2 | 1.2 | 1.3 | 1.4 |
| EBITDA Conversion Ratio | 97.2 | 63.0 | 70.5 | 76.2 |
| Return Ratios (%) | | | | |
| RoE | 18.4 | 12.6 | 11.5 | 12.2 |
| RoCE | 13.8 | 12.0 | 11.7 | 12.2 |
| RoIC | 14.9 | 12.0 | 11.9 | 13.2 |
| Valuation Ratios (x) | | | | |
| P/E | 20.0 | 19.6 | 20.3 | 17.0 |
| EV / EBITDA | 14.1 | 14.1 | 13.1 | 11.2 |
| EV / Net Sales | 3.3 | 3.1 | 2.7 | 2.3 |
| Market Cap / Sales | 3.1 | 2.9 | 2.6 | 2.3 |
| Price to Book Value | 3.4 | 2.6 | 2.3 | 2.1 |
| Solvency Ratios | | | | |
| Debt / EBITDA | 1.4 | 1.3 | 0.9 | 0.6 |
| Debt / Equity | 0.4 | 0.2 | 0.2 | 0.1 |
| Current Ratio | 2.0 | 2.2 | 2.2 | 2.3 |

Source: Company, ICICI Direct Research

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