

Rating: ACCUMULATE | CMP: Rs429 | TP: Rs465

November 14, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	465		425	
Sales (Rs. m)	1,78,117	1,92,740	1,68,867	1,82,710
% Chng.	5.5	5.5		
EBITDA (Rs. m)	39,669	43,608	34,992	38,793
% Chng.	13.4	12.4		
EPS (Rs.)	24.8	26.9	21.2	23.3
% Chng.	17.0	15.1		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,52,652	1,67,327	1,78,117	1,92,740
EBITDA (Rs. m)	33,407	35,532	39,669	43,608
Margin (%)	21.9	21.2	22.3	22.6
PAT (Rs. m)	22,416	21,989	25,416	27,499
EPS (Rs.)	21.9	21.5	24.8	26.9
Gr. (%)	1.8	(1.9)	15.6	8.2
DPS (Rs.)	4.0	4.0	4.5	5.0
Yield (%)	0.9	0.9	1.0	1.2
RoE (%)	14.9	12.3	12.8	12.5
RoCE (%)	13.6	12.8	13.6	13.9
EV/Sales (x)	3.1	2.8	2.6	2.3
EV/EBITDA (x)	14.1	13.1	11.5	10.2
PE (x)	19.6	20.0	17.3	16.0
P/BV (x)	2.6	2.3	2.1	1.9

Key Data ZYDU.BO | ZYDUSLIF IN

52-W High / Low	Rs.502 / Rs.319
Sensex / Nifty	61,795 / 18,350
Market Cap	Rs.435bn/ \$ 5,379m
Shares Outstanding	1,012m
3M Avg. Daily Value	Rs.632.8m

Shareholding Pattern (%)

Promoter's	74.98
Foreign	2.60
Domestic Institution	12.66
Public & Others	9.76
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.3	29.5	(12.7)
Relative	(4.5)	13.3	(15.4)

Param Desai

paramdesai@plindia.com | 91-22-66322259

Akshaya Shinde

akshayashinde@plindia.com | 91-22-66322490

In line quarter aided by gRevlimid

Quick Pointers:

- Moraiya has 5 transdermal products out of its 30 pending approvals.
- Maintained its 20% OPM guidance for FY23.

CDH base business adjusted for gRevlimid was soft. 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 FY23-25E EPS stands revised by 11-17% as we factor in gRevlimid. Given recent run up in stock price and current valuations of 21x P/E on FY24E (adj. for gRevlimid), we downgrade stock to 'Accumulate' from Buy with revised TP of Rs465 based on 21x Sept 2024E earnings plus Rs15/share for gRevlimid.

- **In-line revenues:** Cadila's Q2FY23 sales increased by 9% YoY (flat QoQ) to Rs41bn in-line with our estimate. Domestic formulation sales increased by 4% YoY. Ex-COVID and generics, branded generics portfolio growth came at 11% YoY. Consumer business grew by 12% YoY. US sales came in at USD 214mn (up 6%QoQ), below our estimate; Adj for gRevlimid, base business look to be lower QoQ. Emerging markets growth was down 5% YoY to Rs3.3bn. API decline of 2% YoY to Rs1.36bn.
- **Adjusted OPM at 22.6%; COVID led inventory provisions:** GM declined by 190bp QoQ to 59.6%, mainly on account of one-time inventory provision. Adjusted for one time COVID led inventory provision (Rs1.2bn), GMs came in at 62.6%. Other expenses were up by 18% YoY, while staff cost was up mere 4% YoY. Adjusted margin for inventory provision came in at 22.6% improvement of ~200bps QoQ. Other operating income came in higher at Rs1.92bn aided by forex gain. R&D cost came at 6.4% of sales, up 13% YoY. PAT came in at Rs5.2bn vs our est of Rs5.8bn.
- **Key concall takeaways: (1)** US formulation business growth momentum during Q2 was supported by launch of gRevlimid. In the US company launched 10 new products and received 15 new product approvals. On gAsacol company do not see any competition over next 3-6 months. Trokendi XR likely launch by Q4FY23 and could be limited competition **(2)** Moraiya facility has received EIR with VAI status. Moraiya has 5 transdermal products out of its 30 pending approvals from facility. **(3) Ujvira:** biosimilar gained traction since its launch. **(4)** Zydu received marketing approval in Europe for Nulibry (a specialty product). Its first new chemical entity Lipaglyn has further consolidated its position in the India market and ranked 56th largest brand in IPM. **(5)** Emerging market growth was broad-based across the geographies and continued to maintain its growth momentum despite geopolitical issues. **(6)** Company continue to invest in its R&D pipeline with focus on specialty portfolio to scale up. NCE product Saroglitazar magnesium studies are likely to complete by end of FY23 **(7)** Consumer Wellness business growth was led by Glucon-D, Nycil and EverYuth brands.

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

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Net Sales	41,347	37,848	9.2	40,727	1.5	82,074	77,866	5.4
Raw Material	15,944	13,823	15.3	15,093	5.6	31,037	27,373	13.4
<i>% of Net Sales</i>	<i>38.6</i>	<i>36.5</i>		<i>37.1</i>		<i>37.8</i>	<i>35.2</i>	
Personnel Cost	6,717	6,477	3.7	6,810	(1.4)	13,527	12,713	6.4
<i>% of Net Sales</i>	<i>16.2</i>	<i>17.1</i>		<i>16.7</i>	<i>(2.8)</i>	<i>16.5</i>	<i>16.3</i>	
Others	10,533	8,940	17.8	10,494	0.4	21,027	19,453	8.1
<i>% of Net Sales</i>	<i>25.5</i>	<i>23.6</i>		<i>25.8</i>		<i>25.6</i>	<i>25.0</i>	
Total Expenditure	33,194	29,240	13.5	32,397	2.5	65,591	59,539	10.2
EBITDA	8,153	8,608	(5.3)	8,330	(2.1)	16,483	18,327	(10.1)
<i>Margin (%)</i>	<i>19.7</i>	<i>22.7</i>		<i>20.5</i>		<i>20.1</i>	<i>23.5</i>	
Depreciation	1,818	1,848	(1.6)	1,807	0.6	3,625	3,581	1.2
EBIT	6,335	6,760	(6.3)	6,523	(2.9)	12,858	14,746	(12.8)
Other Income	444	533	(16.7)	659	(32.6)	1,103	849	29.9
Interest	351	301	16.6	343	2.3	694	574	20.9
PBT	6,428	6,992	(8.1)	6,839	(6.0)	13,267	15,021	(11.7)
Extra-Ord. Inc./Exps.	-	957	(100.0)	29	(100.0)	29	957	(97.0)
Total Taxes	1,370	1,000	37.0	1,184	15.7	2,554	2,574	(0.8)
<i>ETR (%)</i>	<i>21.3</i>	<i>14.3</i>		<i>17.3</i>		<i>19.3</i>	<i>17.1</i>	
Minority interest	112	27		(360)		(248)	(456)	
Reported PAT	5,170	5,062	2.1	5,266	(1.8)	10,436	11,034	(5.4)

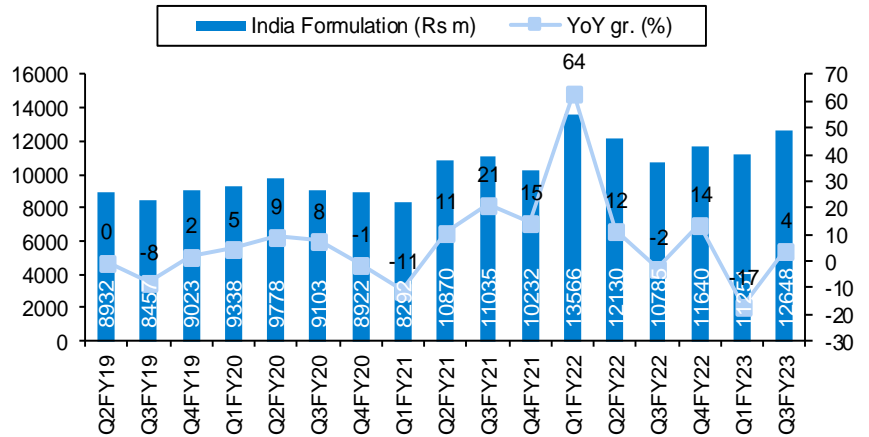
Source: Company, PL

Exhibit 2: Major Sources of Revenues

Major Sources of Revenues	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Domestic	16,875	15,900	6.1	18,167	(7.1)	35,042	35,328	(0.8)
<i>% of Net Sales</i>	<i>42.8</i>	<i>43.1</i>		<i>46.3</i>		<i>44.6</i>	<i>46.6</i>	
Formulation	12,648	12,130	4.3	11,251	12.4	23,899	25,696	(7.0)
<i>% of Net Sales</i>	<i>32.1</i>	<i>32.9</i>		<i>28.7</i>		<i>30.4</i>	<i>33.9</i>	
Consumer HC & Others	4,227	3,770	12.1	6,916	(38.9)	11,143	9,632	15.7
<i>% of Net Sales</i>	<i>10.7</i>	<i>10.2</i>		<i>17.6</i>		<i>14.2</i>	<i>12.7</i>	
Exports	22,552	20,970	7.5	21,062	7.1	43,614	40,481	7.7
<i>% of Net Sales</i>	<i>57.2</i>	<i>56.9</i>		<i>53.7</i>		<i>55.4</i>	<i>53.4</i>	
Formulation	20,933	19,080	9.7	19,361	8.1	40,294	36,728	9.7
<i>% of Net Sales</i>	<i>53.1</i>	<i>51.7</i>		<i>49.4</i>		<i>51.2</i>	<i>48.4</i>	
North America	17,084	14,980	14.0	15,592	9.6	32,676	29,259	11.7
EU	541	610	(11.3)	614	(11.9)	1,155	1,209	(4.5)
EM	3,308	3,490	(5.2)	3,155	4.8	6,463	6,260	3.2
API	1,117	1,340	(16.6)	1,224	(8.7)	2,341	2,695	(13.1)
<i>% of Net Sales</i>	<i>2.8</i>	<i>3.6</i>		<i>3.1</i>		<i>3.0</i>	<i>3.6</i>	

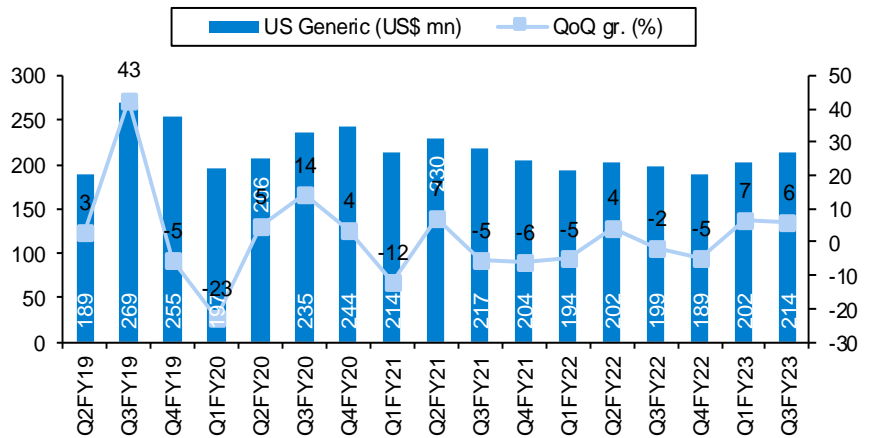
Source: Company, PL

Exhibit 3: India Formulation: Ex-Covid Strong growth, outperform the IPM



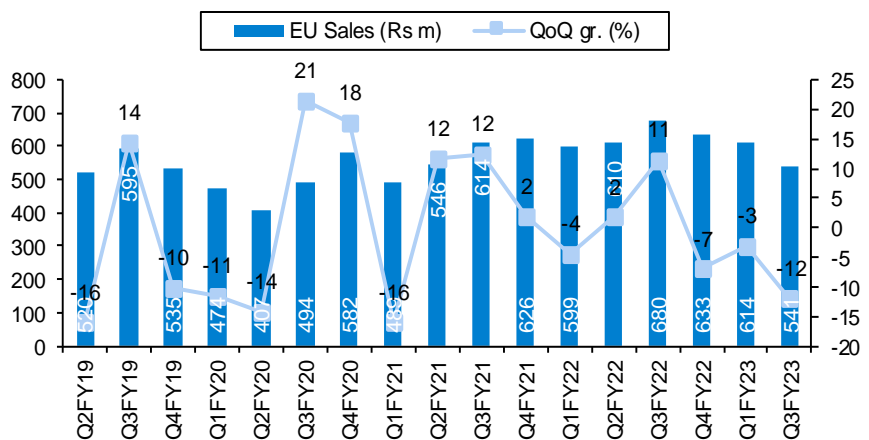
Source: Company, PL

Exhibit 4: US Generic(US\$m): up 6% QoQ led by gRevlimid



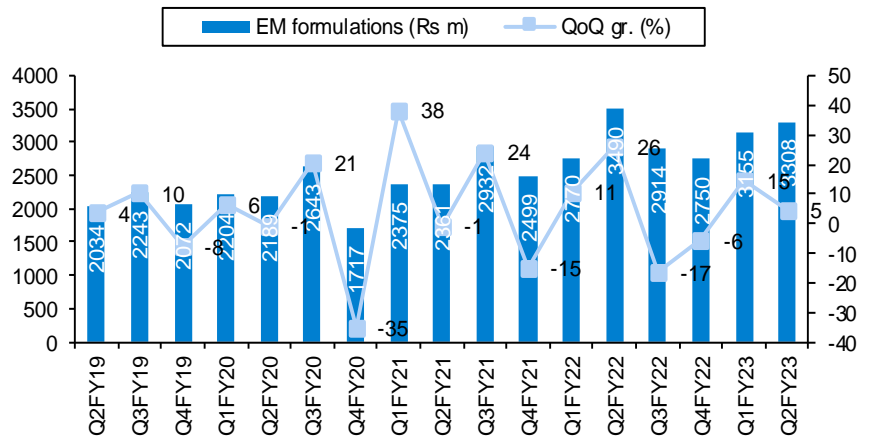
Source: Company, PL

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



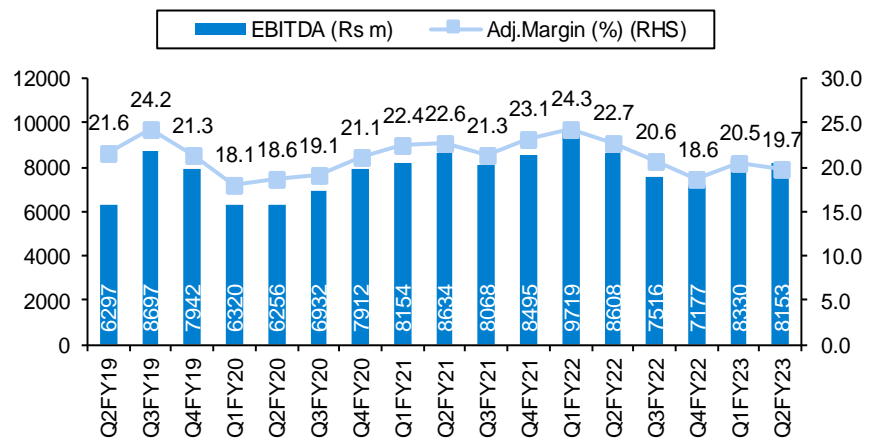
Source: Company, PL

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 pulled margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	1,52,652	1,67,327	1,78,117	1,92,740
YoY gr. (%)	6.0	9.6	6.4	8.2
Cost of Goods Sold	55,452	62,269	64,092	69,562
Gross Profit	97,200	1,05,058	1,14,025	1,23,178
Margin (%)	63.7	62.8	64.0	63.9
Employee Cost	24,341	26,775	28,917	31,230
Other Expenses	7,427	8,020	8,651	9,319
EBITDA	33,407	35,532	39,669	43,608
YoY gr. (%)	(1.4)	6.4	11.6	9.9
Margin (%)	21.9	21.2	22.3	22.6
Depreciation and Amortization	7,130	7,558	8,011	8,492
EBIT	26,277	27,974	31,657	35,116
Margin (%)	17.2	16.7	17.8	18.2
Net Interest	1,270	1,400	1,200	1,100
Other Income	2,247	1,850	2,000	2,200
Profit Before Tax	28,381	28,424	32,457	36,216
Margin (%)	18.6	17.0	18.2	18.8
Total Tax	5,117	5,685	6,491	7,968
Effective tax rate (%)	18.0	20.0	20.0	22.0
Profit after tax	23,264	22,739	25,966	28,249
Minority interest	1,310	1,200	1,000	1,200
Share Profit from Associate	462	450	450	450
Adjusted PAT	22,416	21,989	25,416	27,499
YoY gr. (%)	1.8	(1.9)	15.6	8.2
Margin (%)	14.7	13.1	14.3	14.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	22,416	21,989	25,416	27,499
YoY gr. (%)	1.8	(1.9)	15.6	8.2
Margin (%)	14.7	13.1	14.3	14.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	22,416	21,989	25,416	27,499
Equity Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	21.9	21.5	24.8	26.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	1,81,315	1,93,315	2,05,315	2,17,315
Tangibles	92,988	99,142	1,05,297	1,11,451
Intangibles	88,327	94,173	1,00,018	1,05,864
Acc: Dep / Amortization	58,781	66,339	74,350	82,842
Tangibles	40,871	46,127	51,697	57,602
Intangibles	17,910	20,212	22,653	25,241
Net fixed assets	1,22,534	1,26,976	1,30,965	1,34,473
Tangibles	52,117	53,016	53,600	53,849
Intangibles	70,417	73,960	77,365	80,624
Capital Work In Progress	6,610	6,610	6,610	6,610
Goodwill	-	-	-	-
Non-Current Investments	32,880	32,880	32,880	32,880
Net Deferred tax assets	9,420	9,420	9,420	9,420
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	37,194	40,457	43,454	47,110
Trade receivables	33,403	38,209	41,040	44,493
Cash & Bank Balance	11,069	12,075	18,957	26,850
Other Current Assets	-	-	-	-
Total Assets	2,66,996	2,82,844	3,02,107	3,23,436
Equity				
Equity Share Capital	1,024	1,024	1,024	1,024
Other Equity	1,68,972	1,86,813	2,07,269	2,29,395
Total Networkth	1,69,996	1,87,837	2,08,293	2,30,419
Non-Current Liabilities				
Long Term borrowings	3,621	(1,379)	(1,379)	(1,379)
Provisions	6,906	6,906	6,906	6,906
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	38,339	38,339	35,339	32,339
Trade payables	21,378	24,385	26,192	28,395
Other current liabilities	15,634	15,634	15,634	15,634
Total Equity & Liabilities	2,66,996	2,82,844	3,02,107	3,23,436

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	33,407	35,532	39,669	43,608
Add. Depreciation	7,130	7,558	8,011	8,492
Add. Interest	1,270	1,400	1,200	1,100
Less Financial Other Income	2,247	1,850	2,000	2,200
Add. Other	(10,505)	(8,958)	(9,211)	(9,592)
Op. profit before WC changes	31,302	35,532	39,669	43,608
Net Changes-WC	(3,515)	(5,062)	(4,022)	(4,905)
Direct tax	(6,746)	(5,685)	(6,491)	(7,968)
Net cash from Op. activities	21,041	24,785	29,156	30,735
Capital expenditures	(12,026)	(12,000)	(12,000)	(12,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(12,026)	(12,000)	(12,000)	(12,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(22,297)	(7,331)	(5,564)	(5,820)
Dividend paid	(3,722)	(4,898)	(5,510)	(6,122)
Interest paid	(1,270)	(1,400)	(1,200)	(1,100)
Others	20,460	1,850	2,000	2,200
Net cash from Fin. activities	(6,829)	(11,779)	(10,274)	(10,842)
Net change in cash	2,186	1,006	6,882	7,893
Free Cash Flow	9,015	12,785	17,156	18,735

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	36,398	38,638	40,727	41,347
YoY gr. (%)	(4.1)	5.3	1.8	9.2
Raw Material Expenses	13,334	14,958	15,093	15,944
Gross Profit	23,064	23,680	25,634	25,403
Margin (%)	63.4	61.3	62.9	61.4
EBITDA	7,516	7,177	8,330	8,153
YoY gr. (%)	(6.9)	(15.5)	(14.3)	(5.3)
Margin (%)	20.6	18.6	20.5	19.7
Depreciation / Depletion	1,770	1,854	1,807	1,818
EBIT	5,746	5,323	6,523	6,335
Margin (%)	15.8	13.8	16.0	15.3
Net Interest	311	385	343	351
Other Income	607	791	659	444
Profit before Tax	6,042	5,729	6,839	6,428
Margin (%)	16.6	14.8	16.8	15.5
Total Tax	1,094	1,092	1,184	1,370
Effective tax rate (%)	18.1	19.1	17.3	21.3
Profit after Tax	4,948	4,637	5,655	5,058
Minority interest	(121)	513	360	(112)
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,069	4,124	5,266	5,170
YoY gr. (%)	(3.9)	(41.2)	(11.8)	2.1
Margin (%)	13.9	10.7	12.9	12.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,069	4,124	5,266	5,170
YoY gr. (%)	(3.9)	(41.2)	(11.8)	2.1
Margin (%)	13.9	10.7	12.9	12.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,069	4,124	5,266	5,170
Avg. Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	5.0	4.0	5.2	5.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	21.9	21.5	24.8	26.9
CEPS	28.9	28.9	32.6	35.1
BVPS	166.0	183.4	203.4	225.0
FCF	8.8	12.5	16.8	18.3
DPS	4.0	4.0	4.5	5.0
Return Ratio(%)				
RoCE	13.6	12.8	13.6	13.9
ROIC	10.3	10.3	11.2	11.8
RoE	14.9	12.3	12.8	12.5
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.1	0.0
Net Working Capital (Days)	118	118	119	120
Valuation(x)				
PER	19.6	20.0	17.3	16.0
P/B	2.6	2.3	2.1	1.9
P/CEPS	14.9	14.9	13.2	12.2
EV/EBITDA	14.1	13.1	11.5	10.2
EV/Sales	3.1	2.8	2.6	2.3
Dividend Yield (%)	0.9	0.9	1.0	1.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
US Formulations	58,138	67,880	70,229	74,745
Domestic Formulations	48,125	48,366	53,686	59,054
Consumer Healthcare	19,788	22,163	24,379	26,817
Export Formulations (ex-US)	14,444	15,888	17,505	19,286
API	5,702	5,531	5,918	6,332
Income from JVs	2,079	2,000	2,100	2,205

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	425	409
2	11-Aug-22	BUY	425	364
3	07-Jul-22	BUY	450	366
4	23-May-22	BUY	450	357
5	08-Apr-22	Accumulate	465	369
6	04-Feb-22	Accumulate	465	408
7	07-Jan-22	BUY	590	451

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	4,391
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,300	1,146
5	Divi's Laboratories	Hold	3,300	3,415
6	Dr. Reddy's Laboratories	BUY	4,900	4,460
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	336
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,467
15	Lupin	Hold	650	719
16	Max Healthcare Institute	BUY	500	465
17	Narayana Hrudayalaya	BUY	810	715
18	Sun Pharmaceutical Industries	BUY	1,175	1,037
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	BUY	425	409

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



ANALYST CERTIFICATION

(Indian Clients)

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