

February 6, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	480		465	
Sales (Rs. m)	1,81,140	1,95,302	1,78,117	1,92,740
% Chng.	1.7	1.3		
EBITDA (Rs. m)	39,559	43,422	39,669	43,608
% Chng.	(0.3)	(0.4)		
EPS (Rs.)	24.9	26.9	24.8	26.9
% Chng.	0.2	-		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,51,099	1,71,374	1,81,140	1,95,302
EBITDA (Rs. m)	31,854	36,635	39,559	43,422
Margin (%)	21.1	21.4	21.8	22.2
PAT (Rs. m)	22,416	23,254	25,479	27,510
EPS (Rs.)	21.9	22.7	24.9	26.9
Gr. (%)	1.8	3.7	9.6	8.0
DPS (Rs.)	4.0	4.0	4.5	5.0
Yield (%)	0.9	0.9	1.0	1.2
RoE (%)	14.9	13.0	12.8	12.5
RoCE (%)	12.8	13.4	13.5	13.9
EV/Sales (x)	3.2	2.7	2.5	2.3
EV/EBITDA (x)	14.9	12.8	11.6	10.3
PE (x)	19.9	19.1	17.5	16.2
P/BV (x)	2.6	2.4	2.1	1.9

Key Data

ZYDU.BO | ZYDUSLIF IN

52-W High / Low	Rs.459 / Rs.319
Sensex / Nifty	60,842 / 17,854
Market Cap	Rs.440bn/ \$ 5,376m
Shares Outstanding	1,012m
3M Avg. Daily Value	Rs.481.01m

Shareholding Pattern (%)

Promoter's	74.98
Foreign	2.51
Domestic Institution	13.43
Public & Others	9.08
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.4	25.5	6.6
Relative	3.1	20.3	3.0

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US sales to sustain

Quick Pointers:

- Guided for higher margins in FY23 than FY22.
- Expect momentum in US sales to continue with niche launches in pipeline.

Zydu Lifesciences (ZYDUSLIF) Q3 profitability ex of gRevlimid was strong (with EBIDTA growth of +25%), aided by higher US and domestic formulation sales. We believe that company's steady domestic franchise, strong balance sheet and potential new launches in US will help negate pricing pressure and likely competition in some key products like gAsacol in US. Moreover, ZYDUSLIF has initiated cost efficiency programs and is also working on robust pipeline of complex products including injectables, transdermals, NCE, biosimilars and vaccines which are expected to materialize over next 2-3 years. Our FY24/25E EPS stands unchanged. We maintain our 'Accumulate' rating with revised TP of Rs480 (Rs465 earlier), as we roll forward to Dec 2024E earnings.

- Strong revenue growth of 20% YoY across key markets:** ZYDUSLIF's Q3FY23 sales increased by 20% YoY (up 6% QoQ) to Rs43.6bn vs our estimate of Rs41.2bn aided by higher US sales and other operating income. Domestic formulation sales increased by 14% YoY; above our estimate. Ex-COVID and divestment of portfolio growth came at 16% YoY. Consumer business grew by 8% YoY. US sales came in at USD 234mn (up 9% QoQ), above our estimate; the QoQ improvement was aided by strong flu season and new launches. Emerging markets growth was up 6% YoY to Rs3.1bn. API saw growth of 14% YoY to Rs1.9bn.
- EBITDA at Rs9.6bn led by higher revenues and other operating income:** GM increased by 400bp QoQ and 150 bps YoY to 63.7%. There was 300bps one-time COVID led inventory write off in Q2. Other expenses were up by 25% YoY, led by higher R&D cost (Rs3.4bn; 8.3% of sales and up 35% YoY). Staff cost increased by 17% YoY. EBITDA including other operating income came in at Rs 9.6bn vs our estimate of Rs8.6bn. Other operating income came in higher at Rs2bn aided by forex gain. PAT came in at Rs6.2bn vs our est of Rs5.6bn.
- Key concall takeaways: (1)** In the US, company launched 6 new products in Q3FY23. Launched Topiramate ER capsule in Jan'23 where company is the first generic player with exclusivity **(2)** Company received 14 new product approvals, includes product approval for 'Estradiol' the first transdermal from Moraiya facility. Plans 2-3 meaningful transdermal launches in the US in FY24 **(3)** On gAsacol company does not see any competition for the near term **(4)** On gRevlimid – Mgmt indicated that sales were marginally down QoQ, however guided for higher sales in Q4FY23. **(5)** Company plans for 2-3 new launches of biosimilar over next two years and continues to expand in India as well as ROW. **(6)** During the quarter, company invested \$8mn as one-time setup cost of REMS towards limited competition product in US. R&D expenses are expected to remain in 7-8% range, over the short term **(7)** With 40 rank up Saroglitazar reached at 59th position while 'Lipaglyn' continued to expand and ranked 35th position vs 59th rank in Q3FY22 in IPM **(8)** Guided for capex of Rs 10bn. Net debt stands at Rs6bn as of Dec 2022 end.

Exhibit 1: 3QFY22 Result Overview (Rs mn): Strong performance of US and India business drive the growth

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Sales	43,623	36,398	19.8	41,347	5.5	125,697	114,014	10.2
Raw Material	15,104	13,334	13.3	15,944	(5.3)	46,141	40,494	13.9
<i>% of Net Sales</i>	<i>34.6</i>	<i>36.6</i>		<i>38.6</i>		<i>36.7</i>	<i>35.5</i>	
Personnel Cost	6,890	5,912	16.5	6,717	2.6	20,417	18,343	11.3
<i>% of Net Sales</i>	<i>15.8</i>	<i>16.2</i>		<i>16.2</i>	<i>(2.8)</i>	<i>16.2</i>	<i>16.1</i>	
Others	12,069	9,636	25.2	10,533	14.6	33,096	28,947	14.3
<i>% of Net Sales</i>	<i>27.7</i>	<i>26.5</i>		<i>25.5</i>		<i>26.3</i>	<i>25.4</i>	
Total Expenditure	34,063	28,882	17.9	33,194	2.6	99,654	87,784	13.5
EBITDA	9,560	7,516	27.2	8,153	17.3	26,043	26,230	(0.7)
<i>Margin (%)</i>	<i>21.9</i>	<i>20.6</i>		<i>19.7</i>		<i>20.7</i>	<i>23.0</i>	
Depreciation	1,816	1,770	2.6	1,818	(0.1)	5,441	5,276	3.1
EBIT	7,744	5,746	34.8	6,335	22.2	20,602	20,954	(1.7)
Other Income	385	607	(36.6)	444	(13.3)	1,488	1,456	2.2
Interest	328	311	5.5	351	(6.6)	1,022	885	15.5
PBT	7,801	6,042	29.1	6,428	21.4	21,068	21,525	(2.1)
Extra-Ord. Inc./Exps.	-	-		-		29	(1,127)	(102.6)
Total Taxes	1,952	1,094	78.4	1,370	42.5	4,506	4,025	12.0
<i>ETR (%)</i>	<i>25.0</i>	<i>18.1</i>		<i>21.3</i>		<i>21.4</i>	<i>18.7</i>	
Minority interest	376	121		112		128	(335)	
Reported PAT	6,225	5,069	22.8	5,170	20.4	16,661	18,292	(8.9)

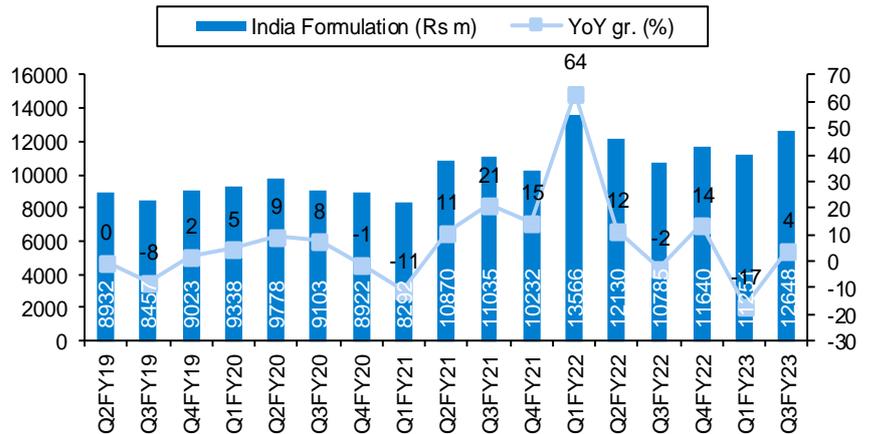
Source: Company, PL

Exhibit 2: Higher US sales aided by strong flu season and new launches

Major Sources of Revenues	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Domestic	16,436	14,607	12.5	16,875	(2.6)	51,478	49,935	3.1
<i>% of Net Sales</i>	<i>39.5%</i>	<i>41.4%</i>		<i>42.8%</i>		<i>42.8%</i>	<i>44.9%</i>	
Formulation	12,316	10,785	14.2	12,648	(2.6)	36,215	36,481	(0.7)
<i>% of Net Sales</i>	<i>29.6%</i>	<i>30.6%</i>		<i>32.1%</i>		<i>30.1%</i>	<i>32.8%</i>	
Consumer HC & Others	4,120	3,822	7.8	4,227	(2.5)	15,263	13,454	13.4
<i>% of Net Sales</i>	<i>9.9%</i>	<i>10.8%</i>		<i>10.7%</i>		<i>12.7%</i>	<i>12.1%</i>	
Exports	25,162	20,686	21.6	22,552	11.6	68,776	61,167	12.4
<i>% of Net Sales</i>	<i>60.5%</i>	<i>58.6%</i>		<i>57.2%</i>		<i>57.2%</i>	<i>55.1%</i>	
Formulation	23,033	18,486	24.6	20,933	10.0	63,327	55,214	14.7
<i>% of Net Sales</i>	<i>55.4%</i>	<i>52.4%</i>		<i>53.1%</i>		<i>52.7%</i>	<i>49.7%</i>	
North America	19,250	14,892	29.3	17,084	12.7	51,926	44,151	17.6
EU	705	680	3.7	541	30.3	1,860	1,889	(1.5)
EM	3,078	2,914	5.6	3,308	(7.0)	9,541	9,174	4.0
API	1,881	1,645	14.3	1,117	68.4	4,222	4,340	(2.7)
<i>% of Net Sales</i>	<i>4.5%</i>	<i>4.7%</i>		<i>2.8%</i>		<i>3.5%</i>	<i>3.9%</i>	

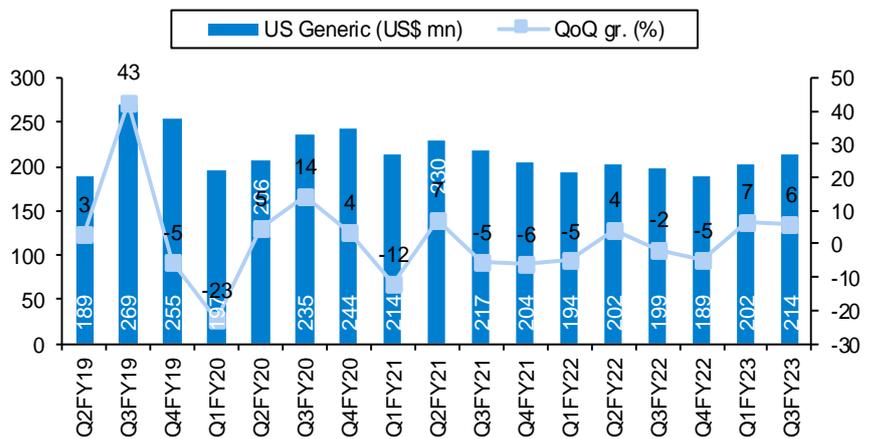
Source: Company, P

Exhibit 3: Robust performance across key therapies



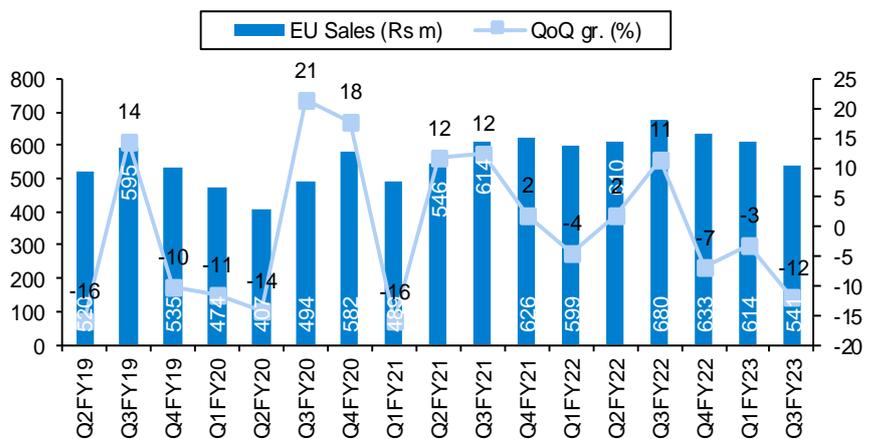
Source: Company, PL

Exhibit 4: Steady growth; up 6% QoQ led by seasonality and new launches



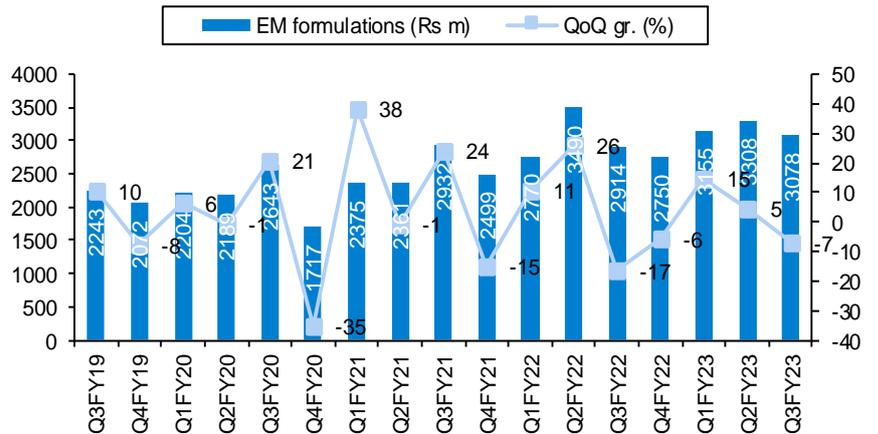
Source: Company, PL

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



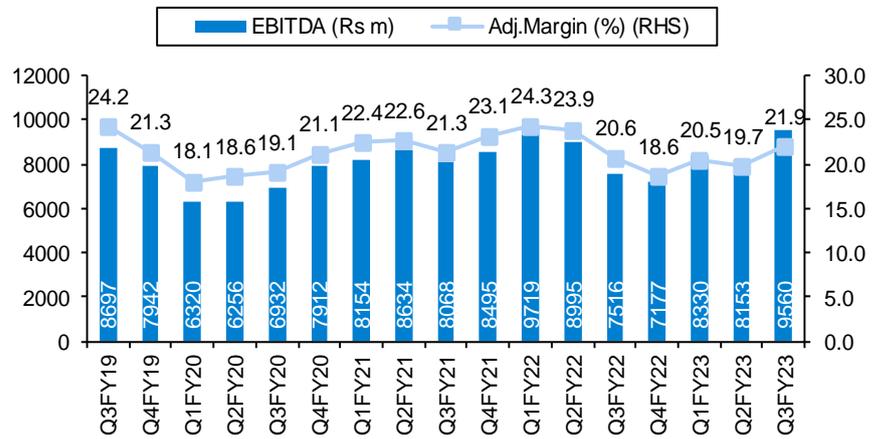
Source: Company, PL

Exhibit 6: Base business continued to show robust performance



Source: Company, PL

Exhibit 7: Strong product pipeline and focused execution to sustain margins



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	1,51,099	1,71,374	1,81,140	1,95,302
YoY gr. (%)	4.9	13.4	5.7	7.8
Cost of Goods Sold	55,452	62,669	64,470	69,327
Gross Profit	95,647	1,08,705	1,16,670	1,25,976
Margin (%)	63.3	63.4	64.4	64.5
Employee Cost	24,341	27,505	29,706	32,082
Other Expenses	7,427	8,020	8,651	9,319
EBITDA	31,854	36,635	39,559	43,422
YoY gr. (%)	(6.0)	15.0	8.0	9.8
Margin (%)	21.1	21.4	21.8	22.2
Depreciation and Amortization	7,130	7,380	7,822	8,292
EBIT	24,724	29,255	31,736	35,131
Margin (%)	16.4	17.1	17.5	18.0
Net Interest	1,270	1,400	1,200	1,100
Other Income	3,800	1,900	2,000	2,200
Profit Before Tax	28,381	29,755	32,536	36,231
Margin (%)	18.8	17.4	18.0	18.6
Total Tax	5,117	5,951	6,507	7,971
Effective tax rate (%)	18.0	20.0	20.0	22.0
Profit after tax	23,264	23,804	26,029	28,260
Minority interest	1,310	1,000	1,000	1,200
Share Profit from Associate	462	450	450	450
Adjusted PAT	22,416	23,254	25,479	27,510
YoY gr. (%)	1.8	3.7	9.6	8.0
Margin (%)	14.8	13.6	14.1	14.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	22,416	23,254	25,479	27,510
YoY gr. (%)	1.8	3.7	9.6	8.0
Margin (%)	14.8	13.6	14.1	14.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	22,416	23,254	25,479	27,510
Equity Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	21.9	22.7	24.9	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	66,161	73,983	82,275
Tangibles	40,871	46,003	51,442	57,207
Intangibles	17,910	20,158	22,541	25,068
Net fixed assets	1,22,534	1,27,154	1,31,332	1,35,040
Tangibles	52,117	53,140	53,855	54,244
Intangibles	70,417	74,015	77,477	80,796
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	41,219	44,160	47,701
Trade receivables	33,403	38,929	41,707	45,051
Cash & Bank Balance	11,069	11,940	18,771	26,630
Other Current Assets	-	-	-	-
Total Assets	2,66,996	2,84,368	3,03,660	3,24,932
Equity				
Equity Share Capital	1,024	1,024	1,024	1,024
Other Equity	1,68,972	1,87,878	2,08,397	2,30,535
Total Networkth	1,69,996	1,88,902	2,09,421	2,31,559
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	24,844	26,617	28,751
Other current liabilities	15,634	15,634	15,634	15,634
Total Equity & Liabilities	2,66,996	2,84,368	3,03,660	3,24,932

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	31,854	36,635	39,559	43,422
Add. Depreciation	7,130	7,380	7,822	8,292
Add. Interest	1,270	1,400	1,200	1,100
Less Financial Other Income	3,800	1,900	2,000	2,200
Add. Other	(10,505)	(8,780)	(9,022)	(9,392)
Op. profit before WC changes	29,749	36,635	39,559	43,422
Net Changes-WC	(3,515)	(6,084)	(3,947)	(4,750)
Direct tax	(6,746)	(5,951)	(6,507)	(7,971)
Net cash from Op. activities	19,488	24,600	29,105	30,701
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	22,013	1,900	2,000	2,200
Net cash from Fin. activities	(5,276)	(11,729)	(10,274)	(10,842)
Net change in cash	2,186	871	6,831	7,859
Free Cash Flow	7,462	12,600	17,105	18,701

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	38,638	40,727	41,347	43,623
YoY gr. (%)	5.3	1.8	10.0	19.8
Raw Material Expenses	14,958	15,093	15,944	15,104
Gross Profit	23,680	25,634	25,403	28,519
Margin (%)	61.3	62.9	61.4	65.4
EBITDA	7,177	8,330	8,153	9,560
YoY gr. (%)	(15.5)	(14.3)	(9.4)	27.2
Margin (%)	18.6	20.5	19.7	21.9
Depreciation / Depletion	1,854	1,807	1,818	1,816
EBIT	5,323	6,523	6,335	7,744
Margin (%)	13.8	16.0	15.3	17.8
Net Interest	385	343	351	328
Other Income	791	659	444	385
Profit before Tax	5,729	6,839	6,428	7,801
Margin (%)	14.8	16.8	15.5	17.9
Total Tax	1,092	1,184	1,370	1,952
Effective tax rate (%)	19.1	17.3	21.3	25.0
Profit after Tax	4,637	5,655	5,058	5,849
Minority interest	513	360	(112)	(376)
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,124	5,266	5,170	6,225
YoY gr. (%)	(41.2)	(11.8)	(28.7)	22.8
Margin (%)	10.7	12.9	12.5	14.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,124	5,266	5,170	6,225
YoY gr. (%)	(41.2)	(11.8)	(28.7)	22.8
Margin (%)	10.7	12.9	12.5	14.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,124	5,266	5,170	6,225
Avg. Shares O/s (m)	1,024	1,024	1,024	1,024
EPS (Rs)	4.0	5.2	5.0	6.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	21.9	22.7	24.9	26.9
CEPS	28.9	29.9	32.5	35.0
BVPS	166.0	184.5	204.5	226.1
FCF	7.3	12.3	16.7	18.3
DPS	4.0	4.0	4.5	5.0
Return Ratio(%)				
RoCE	12.8	13.4	13.5	13.9
ROIC	9.7	10.7	11.1	11.8
RoE	14.9	13.0	12.8	12.5
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.1	0.0
Net Working Capital (Days)	119	118	119	120
Valuation(x)				
PER	19.9	19.1	17.5	16.2
P/B	2.6	2.4	2.1	1.9
P/CEPS	15.1	14.5	13.4	12.4
EV/EBITDA	14.9	12.8	11.6	10.3
EV/Sales	3.2	2.7	2.5	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	71,135	73,268	77,335
Domestic Formulations	48,125	48,847	54,220	59,642
Consumer Healthcare	19,788	21,965	24,161	26,577
Export Formulations (ex-US)	14,444	15,596	17,183	18,932
API	5,702	5,531	5,918	6,332
Income from JVs	2,079	1,800	1,890	1,985

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	Accumulate	465	433
2	14-Nov-22	Accumulate	465	429
3	06-Oct-22	BUY	425	409
4	11-Aug-22	BUY	425	364
5	07-Jul-22	BUY	450	366
6	23-May-22	BUY	450	357
7	08-Apr-22	Accumulate	465	369

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,387
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	Accumulate	550	444
4	Cipla	BUY	1,280	1,035
5	Divi's Laboratories	Hold	2,700	2,884
6	Dr. Reddy's Laboratories	BUY	4,900	4,201
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	285
9	Glenmark Pharmaceuticals	Accumulate	460	434
10	HealthCare Global Enterprises	BUY	375	285
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Accumulate	950	858
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,992
14	Krishna Institute of Medical Sciences	BUY	1,660	1,505
15	Lupin	Hold	650	742
16	Max Healthcare Institute	BUY	500	436
17	Narayana Hrudayalaya	BUY	920	712
18	Sun Pharmaceutical Industries	BUY	1,175	1,035
19	Torrent Pharmaceuticals	BUY	1,820	1,557
20	Zydus Lifesciences	Accumulate	465	433

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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