

ZyduS Lifesciences Ltd

Q2FY25



Zydus Lifesciences Ltd.

Ongoing litigation and regulatory hurdles weigh on valuation

CMP INR 964*	Target INR 1,201	Potential Upside 24.6%	Market Cap (INR mn) INR 9,69,532	Recommendation BUY	Sector Pharmaceuticals
-----------------	---------------------	---------------------------	-------------------------------------	-----------------------	---------------------------

Result Highlights of Q2FY25:

- Zydus Lifesciences' revenue was largely in-line with our estimate (-2.7%) due to strong growth across geographical segments. However, Adj. PAT missed our estimate due to higher-than-expected depreciation and tax expenses, and lower-than-expected other income.
- We maintain our FY26E EPS estimates of INR 52.3 as we believe the company's focus on chronic and specialty therapies, and high-value product launches in key markets position it well for sustained growth. We expect the revenue to grow at 16.6% CAGR and Adj. PAT to grow at 16.1% CAGR for FY24-FY26E, respectively.
- We reduce the PE multiple to 23.0x (previously: 27.5x) due to litigation concerning Mirabegron, regulatory challenges such as a warning letter from the US FDA for its injectable facility, and competition in the US market for Asacol HD. Therefore, we arrive at a target price of INR 1,201 (previously: INR 1,439) and maintain our "BUY" rating on the stock.

MARKET DATA

Shares outs (mn)	1,006
Mkt Cap (INR mn)	9,69,532
52 Wk H/L (INR)	1,324/616
Volume Avg (3m K)	2,233
Face Value (INR)	1
Bloomberg Code	ZYDUSLIF IN

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	172,374	195,474	231,440	265,857	304,072
EBITDA	38,599	53,843	66,466	76,589	92,768
Adj. PAT	25,599	38,967	43,491	52,510	63,931
Adj. EPS (INR)	25.2	38.5	43.0	52.2	63.6
EBITDA Margin	22.4%	27.5%	28.7%	28.8%	30.5%
Adj. NPM	14.9%	19.9%	18.8%	19.8%	21.0%

Source: Company, DevenChoksey Research

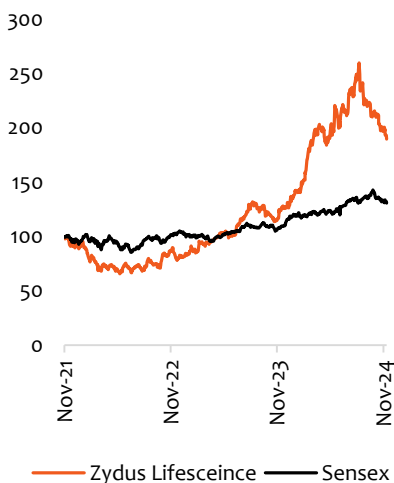
Strong volume and segment growth boost top-line

- For Q2FY25, the revenue increased 19.9% YoY (-15.6% QoQ) to INR 52,370 Mn. The YoY growth was driven by robust growth across business segments.
- US formulation (47.3% of revenue) grew by 29.6% YoY (-21.9% QoQ) to INR 24,168 Mn due to volume expansion and recent product launches.
- Indian formulation (28.5% of revenue) grew by 9.2% YoY (+5.9% QoQ) to INR 14,569 Mn driven by increased volumes and contributions from new products, especially in high-demand therapies like cardiology and oncology.
- International formulation (10.5% of revenue) grew by 19.6% YoY (+1.5% QoQ) to INR 5,389 Mn led by emerging markets and Europe which showed strong performance due to resilient demand, despite political and economic challenges in some countries.
- Consumer Wellness (9.5% of revenue) grew by 12.0% YoY (-41.7% QoQ) to INR 4,875 Mn led by strong volume growth of 8.4%. Both the personal care segment, food, and nutrition segment performed well, driving the overall performance of the business.

EBITDA improved with gross margin expansion despite rising operating costs

- EBITDA increased 33.1% YoY (-35.9% QoQ) to INR 14,160 Mn. EBITDA margin expanded 269 bps YoY (-855 bps QoQ) to 27.0% primarily due to improvement in gross margins.
- However, the company saw a rise in employee expenses due to increased investments in research and development (R&D) staff costs. Additionally, the company incurred higher expenses for distribution, marketing, and regulatory activities which impacted overall profitability.
- Adj. Net profit increased 20.5% YoY (-44.0% QoQ) to INR 8,658 Mn.

SHARE PRICE PERFORMANCE



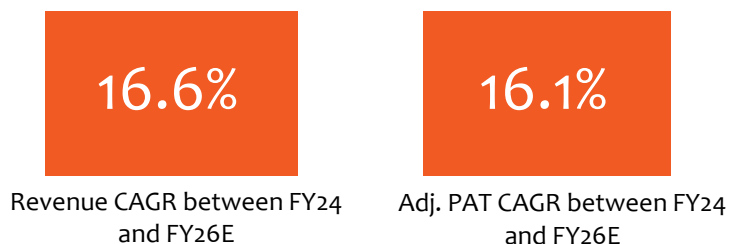
MARKET INFO

SENSEX	77,691
NIFTY	23,559

SHARE HOLDING PATTERN (%)

Particulars	Sept-24 (%)	Jun-24 (%)	Mar-24 (%)
Promoters	75.0	75.0	75.0
FIIIs	7.5	5.6	5.7
DIIIs	10.7	12.5	12.6
Others	6.9	6.9	6.7
Total	100.0	100.0	100.0

*Based on the today's closing
Note: All the market data is as of today's closing



Zydus Lifesciences Ltd.

Key Concall Highlights:

- The company provided guidance on **R&D expense**, expecting it to be around **8.0% of revenue** for FY25E which is **expected to maintain the same range for the near future**.
- The company launched **12 new products**, including line extensions, with **four first-in-India launches**.
- The company faces **competition in the US market**, particularly for products like **Asacol HD**, where a **competitor has launched a generic version**.
- Zydus Lifesciences faces **uncertainty** surrounding the **litigation concerning Mirabegron**. While the litigation is **not expected to conclude soon**, it represents a potential challenge to future revenue from this product.
- The company received a **warning letter from the US FDA for its injectable facility in Jarod**, requiring **corrective and preventive actions for remediation**. Regulatory challenges can lead to delays in product approvals and impact the company's growth trajectory.
- **International formulation business**, though performing well, **faces uncertainties** due to **ongoing political and economic instability in some countries**.
- Zydus Lifesciences launched **four new products**, filed **eight additional ANDAs**, and received **approvals for nine ANDAs**, including three tentative approvals during Q2FY25.
- The US FDA issued an **Establishment Inspection Report (EIR)** with a **Voluntary Action Indicated (VAI)** status to a **transdermal formulations facility in Ahmedabad SEZ**.
- The contribution of the **chronic portfolio** within India's branded formulations business has **increased steadily** over the past several years, **reaching 41.8% in Q2FY25**.
- This indicates a **shift towards higher-value treatments**, which are likely to **drive both revenue and profitability in the long term**.
- Zydus Lifesciences is actively building its portfolio in the **US by focusing on high-value products** that offer greater returns. This strategy includes **launching limited-competition products**, **leveraging 505(b)(2) pathways**, and **exploring in-licensing opportunities for niche, valuable products**.
- The company recently announced the **in-licensing of Gadolinium**, a product with **limited competition in the contrast media market**.

Valuation and View:

In Q2FY25, Zydus Lifesciences delivered strong YoY revenue growth, supported by robust performance across its key business segments and strategic product expansions. The US formulations business, making up nearly half of the revenue, was a major growth driver, with recent product launches and volume expansion. The Indian formulations segment also contributed significantly, seeing increased demand for high-value therapies, such as cardiology and oncology. Meanwhile, the international formulations segment continued its upward trend, particularly in emerging markets and Europe, where demand remained resilient despite some geopolitical and economic challenges.

We maintain our FY26E EPS estimates of INR 52.3 as we believe the company's focus on chronic and specialty therapies, and high-value product launches in key markets position it well for sustained growth. We expect the revenue to grow at 16.6% CAGR and Adj. PAT to grow at 16.1% CAGR for FY24-FY26E, respectively. Currently, the stock is trading at a PE multiple of 22.1x/18.2x, based on FY25E/FY26E EPS, respectively. We reduce the PE multiple to 23.0x (previously: 27.5x) due to litigation concerning Mirabegron, regulatory challenges such as a warning letter from the US FDA for its injectable facility, and competition in the US market for Asacol HD. Therefore, we arrive at a target price of INR 1,201 (previously: INR 1,439) and maintain our "BUY" rating on the stock which will have an upside potential of 24.6%.

Revenue Segments

Segment Result (INR mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	42,586	43,437	53,664	60,465	51,136
US Formulations	18,648	18,427	25,235	30,929	24,168
India Formulations	13,341	14,273	13,806	13,758	14,569
International formulation	4,504	4,937	4,960	5,309	5,389
Consumer Wellness	4,352	3,974	7,755	8,366	4,875
APIs	1,402	1,431	1,436	1,415	1,194

Segment Performance (% YoY)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total	8.0%	4.4%	10.6%	19.7%	20.1%
US Formulations	9.2%	-4.3%	12.0%	26.0%	29.6%
India Formulations	5.5%	15.9%	7.1%	12.1%	9.2%
International formulation	36.2%	60.4%	12.9%	8.5%	19.6%
Consumer Wellness	3.0%	-3.5%	9.6%	20.6%	12.0%
APIs	25.5%	-23.9%	14.8%	1.9%	-14.8%

Source: Company, DevenChoksey Research

Zydus Lifesciences Ltd.

Result Snapshot

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from Operations	52,370	62,075	43,688	-15.6%	19.9%
Total Expenditure	38,210	39,985	33,049	-4.4%	15.6%
Cost of Raw Materials	10,665	11,155	10,370	-4.4%	2.8%
Purchase of Stock	4,839	5,224	4,055	-7.4%	19.3%
Changes in Inventories	-790	-518	313	52.5%	NM
Employee Cost	8,792	8,835	7,529	-0.5%	16.8%
Other Expenses	14,704	15,289	10,782	-3.8%	36.4%
EBITDA	14,160	22,090	10,639	-35.9%	33.1%
EBITDA Margins (%)	27.0%	35.6%	24.4%	-855 bps	269 bps
Depreciation	2,336	2,153	1,842	8.5%	26.8%
EBIT	11,824	19,937	8,797	-40.7%	34.4%
Other Income	682	632	540	7.9%	26.3%
Interest Expense	251	322	87	-22.0%	188.5%
Net (gain) /loss on FX	0	0	0	NM	NM
Exceptional Items	-454	1,250	-822	NM	NM
PBT	12,709	18,997	10,072	-33.1%	26.2%
Tax	3,731	4,361	2,264	-14.4%	64.8%
Share of Associates	221	189	234	16.9%	-5.6%
Minority Interest	90	626	25	-85.6%	260.0%
Discontinued Operations	3	0	-10	NM	NM
PAT	9,112	14,199	8,007	-35.8%	13.8%
PAT Margin	17.4%	22.9%	18.3%	-547 bps	-93 bps
Adj PAT	8,658	15,449	7,185	-44.0%	20.5%
Adj PAT Margin	16.5%	24.9%	16.4%	-836 bps	9 bps
EPS	9.1	14.1	7.9	-35.8%	14.3%
Adj EPS	8.6	15.4	7.1	-44.0%	21.2%

Source: Company, DevenChoksey Research

Zydus Lifesciences Ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	172,374	195,474	231,440	265,857	304,072
COGS	63,101	62,282	63,446	70,961	75,992
Gross profit	109,273	133,192	167,994	194,896	228,080
Employee cost	27,656	31,376	38,686	46,525	53,213
Other expenses	43,018	47,973	62,842	71,781	82,099
EBITDA	38,599	53,843	66,466	76,589	92,768
Depreciation	7,227	7,641	8,310	9,076	10,536
EBIT	31,372	46,202	58,156	67,513	82,231
Finance Costs	1,299	812	1,075	965	965
Other Income	1,866	2,841	2,838	2,924	3,345
PBT	31,939	48,231	59,919	69,473	84,611
Tax	5,878	9,775	16,141	17,160	21,068
PAT	19,603	38,595	43,491	52,510	63,931
EPS (INR)	19.3	38.1	43.0	52.2	63.6
Adj. PAT	25,599	38,967	43,491	52,510	63,931
Adj. EPS (INR)	25.2	38.5	43.0	52.2	63.6

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	26,888	32,279	43,784	38,634	42,736
CFFI	8,044	(14,752)	(23,757)	(23,403)	(26,957)
CFFF	(44,004)	(18,104)	(9,773)	(13,467)	(15,751)
Net Inc/Dec in cash	(9,072)	(577)	10,254	1,764	28
Opening Cash	6,578	4,878	4,130	4,938	6,702
Adjustment	(1,700)	(748)	808	1,764	28
Closing Cash	4,878	4,130	4,938	6,702	6,729

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin	22.4%	27.5%	28.7%	28.8%	30.5%
Tax rate (%)	22.7%	20.3%	26.9%	24.7%	24.9%
Adj Net Profit Margin (%)	14.9%	19.9%	18.8%	19.8%	21.0%
RoE (%)	13.0%	17.6%	16.9%	17.5%	18.1%
RoCE (%)	15.0%	20.2%	22.0%	22.1%	23.1%
Current Ratio (x)	1.8	2.2	2.4	2.9	3.7
P/E(x)	37.7	24.7	22.1	18.2	14.9

Source: Company, DevChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	1,012	1,006	1,006	1,006	1,006
Other Equity	195,871	220,010	256,085	299,225	351,502
Total Equity	196,883	221,016	257,091	300,231	352,508
Non-Current Liabilities					
Other financial liabilities	712	10,793	10,793	10,793	10,793
Provisions	2,718	3,097	3,097	3,097	3,097
Other Non-Current Liabilities	1,944	4,483	4,483	4,483	4,483
Total Non-Current Liabilities	5,374	18,373	18,373	18,373	18,373
Current Liabilities					
Borrowings	11,632	7,686	7,686	5,686	3,686
Trade Paybles	21,250	21,267	24,460	25,274	22,902
Other current liabilities	22,425	24,466	24,276	26,243	27,560
Total Current Liabilities	55,307	53,419	56,421	57,203	54,147
Total Liabilities	60,681	71,792	74,794	75,576	72,520
Non-Current Assets					
Property Plants and Equipments	56,965	58,033	67,590	78,567	91,123
Capital work-in-progress	11,302	11,115	11,115	11,115	11,115
Other Non-current assets	89,133	108,646	115,890	119,358	123,153
Total Non-Current Assets	157,400	177,794	194,595	209,040	225,391
Current Assets					
Inventories	34,133	34,419	45,194	50,548	58,295
Trade Receivables	44,168	52,202	57,067	76,479	98,303
Cash and Bank	5,731	11,051	11,859	13,623	13,650
Other current assets	16,132	17,342	23,170	26,117	29,389
Total Current Assets	100,164	115,014	137,290	166,766	199,637
Total Assets	257,564	292,808	331,885	375,807	425,028

Zydus Lifesciences Ltd.

Zydus Lifesciences Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
13-Nov-24	964	1,201	BUY	Buy	More than 15%
21-Aug-24	1,193	1,439	BUY	Accumulate	5% – 15%
21-May-24	1,104	1,186	ACCUMULATE	Hold	0 – 5%
14-Feb-24	858	913	ACCUMULATE	Reduce	-5% – 0
25-Aug-23	640	725	ACCUMULATE	Sell	Less than – 5%
20-May-23	497	623	BUY		

ANALYST CERTIFICATION:

I, **Dipak Saha** (MBA, Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000001295. It is also registered as a Depository Participant with CDSL, CDSL Registration No IN-DP-425-2019.

KRChoksey Shares & Securities Pvt Ltd. and DRChoksey Finserv Private Ltd. (Demerged entity from KRChoksey Shares & Securities Limited) are regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of Research Analysts including preparing and distribution of Research Reports. This research report is prepared and distributed by DRChoksey Finserv Private Ltd in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No. INH000011246. It may be further notified that KRCSSPL carries on the activity of preparation as well as distribution of reports in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No. INH000001295.

Deven Choksey Research is a brand name of DRChoksey Finserv Private Limited. The information and opinions in this report are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavour to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension follows applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, in reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities. KRCSSPL prohibits its associate, analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. KRCSSPL or its associates (Group Companies) collectively or its research analyst, or relatives do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst. It is confirmed that, I, Dipak Saha Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions. KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months. KRCSSPL or its associates (Group Companies) collectively or its research analyst, or relatives might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services. KRCSSPL or its associates (Group Companies) collectively or its research analyst, or relatives might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report other than investment banking or merchant banking or brokerage services from the subject company KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts his associate or his relative, have any material conflict of interest at the time of publication of this report. It is confirmed that, Dipak Saha, Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report. KRCSSPL or its associates (Group Companies) or its research analyst has may been engaged in market making activity for the subject company. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction. Please send your feedback to research.insti@krchoksey.com

In case of any grievances, please write to grievance@krchoksey.com
Visit us at www.krchoksey.com
KRChoksey Shares and Securities Pvt. Ltd.
CIN-U67120MH1997PTC108958
Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060
Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058
Phone: 91-22-66535000
Compliance Officer: Varsha Shinde
Email: varsha.shinde@krchoksey.com