HOLD (Maintained)

CMP: **INR 977** Target Price: **INR 1,000 (INR 960)** ▲ 2%

ICICI Securities

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06 February 2025

India | Equity Research | Results update

Zydus Lifesciences

Pharma

Near-term challenges persist in US

Zydus Lifesciences' (Zydus) Q3FY25 revenue was in line with our expectations, but lower sales of gRevlimid and gAsacol led to a miss in earnings. Higher sales of Mirabegron and new launches led to a surge in US revenue (+29% YoY). We expect gRevlimid and Mirabegron to account for ~14% of FY25E revenue and ~38% of EBITDA. Launch of sitagliptin 505b(2) may boost growth in near term, gRevlimid sales could flatten out in FY26 and additional competition may enter in Mirabegron which puts its FY26-27E earnings growth at risk. Management anticipates single-digit growth in the US in FY26 while material launches from US pipeline are expected only in H2FY27. Management maintains FY25 guidance of mid-teen revenue growth and EBITDA margin of 28-29%. We raise EBITDA by ~12% for FY25E and ~4% for FY26E to factor in better US sales. Retain **HOLD** with a higher TP of INR 1,000, based on 22x FY26E earnings.

In-line revenue; lower sales of exclusive products drag profits

Zydus Lifesciences (Zydus) Q3FY25 revenue was up 17% YoY (0.6% QoQ) to INR 52.7bn (I-Sec: INR 52.6bn) aided by exports and API business. Gross margin expanded ~300bps YoY (-210bps QoQ) to 69.1%. R&D cost rose 59.9% YoY (up 4.8% QoQ) to INR 5bn and stood at 9.5% of sales vs 7% in Q3FY24 and 9.2% in Q2FY25. Adjusting for one-off cost of INR 950mn, EBITDA grew 20.6% YoY to INR 13bn (I-Sec: INR 13.6bn). EBITDA margin expanded 74bps YoY (-233bps QoQ) to 24.7%. Adjusted for FX gains of INR 1.83bn and reversal of deferred tax provision of past quarter, PAT came in at INR 8bn (I-Sec: INR 9bn), up 4.2% YoY (-8.5% QoQ).

Mirabegron drives growth in US; FY26 outlook for US unclear

Domestic branded formulation grew at 5% YoY to INR 15bn on high base of last year. Growth was driven by therapies such as cardiology, gastro-intestinal, respiratory, anti-infectives and oncology. We expect the segment to grow at a CAGR of 9.4% over FY24–27E. Consumer business revenue was up 12.9% YoY at INR 4.5bn driven by 4.8% volume growth and acquisition of Naturell. US sales grew a strong 29% YoY (-1% QoQ) to USD 285mn (I-Sec USD 276mn). Sequential growth was impacted by lower sales of gAsacol and gRevlimid, partially offset by new contracts for existing products, higher sales of Mirabegron and some new launches. In Q3, it launched five new products in US. We factor in 3.7% CAGR for US business over FY24–27E. EMs and Europe grew 15.5% YoY to INR 5.7bn led by robust growth across key geographies. APIs declined 19.0% YoY to INR 1.7bn.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,95,474	2,31,786	2,37,671	2,50,323
EBITDA	53,533	70,407	68,060	65,822
EBITDA Margin (%)	27.4	30.4	28.6	26.3
Net Profit	38,430	47,005	45,280	42,980
EPS (INR)	38.2	46.7	45.0	42.7
EPS % Chg YoY	74.8	22.3	(3.7)	(5.1)
P/E (x)	25.0	20.0	21.7	22.9
EV/EBITDA (x)	18.8	14.0	14.0	13.9
RoCE (%)	18.0	19.9	16.1	13.6
RoE (%)	20.6	21.4	17.5	14.5

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Market Data

Market Cap (INR)	983bn
Market Cap (USD)	11,244mn
Bloomberg Code	ZYDUSLIF IN
Reuters Code	ZYDU BO
52-week Range (INR)	1,324 /754
Free Float (%)	25.0
ADTV-3M (mn) (USD)	12.9

Price Performance (%)	3m	6m	12m
Absolute	(1.2)	(20.4)	28.4
Relative to Sensex	0.4	(19.8)	19.3

ESG Score	2023	2024	Change
ESG score	**70.3**	**67.8**	**-2.5**
Environment	64.9	63.3	-1.6
Social	58.2	57.4	-0.8
Governance	80.4	80.3	-0.1

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	4.2	1.3
EBITDA	11.5	4.3
EPS	11.8	4.0

Previous Reports

13-11-2024: Q2FY25 results review

11-08-2024: Q1FY25 results review

Valuation and risks

Zydus' Q3 gross and EBITDA margins were weaker on sequential basis due to lower sales of gRevlimid and gAsacol and higher R&D expenses (rose 4.8% YoY). Q4FY25 is likely to be a strong quarter as the company will book higher sales of gRevlimid and exclusivity in Mirabegron is likely to stay for a few more quarters. The company has launched its 505b(2) brand of sitagliptin in US which will likely boost growth and margins in FY26 while sales of gRevlimid are likely to be flat in FY26. Additional competition in Mirabegron remains and earlier than anticipated price erosion in gRevlimid puts a significant risk to Zydus' FY26-27 earnings. The company has also fast paced some projects which has dented margins of its base business. Management expects single digit growth in US in FY26 and further exclusive launches for US are lined up in H2FY27. Domestic formulations grew 5% YoY due to high base. It is planning to launch Semaglutide in India in the first wave of launch and has filed the product in the US as well. In India, its NCE product portfolio is driving growth and is helping it absorb the impact of the mandated price cuts. India branded business is expected to grow better than market growth.

Windfall from exclusive products in US had helped the company in paring debt (net cash balance of INR ~31bn at the end of Q3FY25). R&D (~8% of overall sales) for development of NCEs and complex generic products should ensure long-term growth. Besides, the company may pursue M&A in US specialty and India branded generics spaces to further improve scale. Zydus' higher dependency on exclusive products may cap its earnings growth beyond FY25.

We increase EBITDA by ~12% for FY25E and ~4% for FY26E to factor in better sales in the US. It trades at valuations of 21.7x FY26E and 22.9x FY27E earnings, and EV/EBITDA of 14.0x FY26E and 13.9x FY27E. Maintain **HOLD** with higher target price of INR 1,000 (INR 960), based on 22x FY26E EPS (unchanged).

Upside risks: Better-than-expected sales in non-exclusive products and reduced price erosion in US.

Downside risks: More products under price control in India, competition in US and regulatory hurdles.

Q3FY25 conference call highlights

India branded formulations

- India growth has slowed on high base of last year. In 9MFY25, India biz had grown 9%.
- Innovative portfolio registered strong volume growth.
- Zydus is planning to launch Semaglutide in India. The company is backward integrated in this product and has a secondary source as well.
- API for Semaglutide is readily available. The company has 2 formulations for this product out of which one is a differentiated product.
- GLP-1 market will be competitive and disruptive since most of the companies are chasing this opportunity.
- India new launch pipeline consists of day 1 launches, complex generics including biosimilars (most of them are day 1) and pipeline of ADCs including novel biologics.

India consumer

- In Dec'24, it completed acquisition of Naturell (India) Pvt. Ltd, a leading healthy snacking company.

US

- Zydus has entered into an agreement with CVS Caremark to add its sitagliptin 505b(2) brands Zituvio, Zituvimet and Zituvimet XR to its formulary from 1st Jan'25.
- US sales in Q3FY25 did not include revenue from sitagliptin 505b(2) product.
- Government contracts for sitagliptin 505b(2) will continue beyond patent expiration.
- Management believes it will have good margins in current 505 b(2) products.
- Zydus may file couple of 505b(2) products in near term; however, it does not expect approval from USFDA for more 505b(2) products in next 1 year.
- Sequential sales impact of generic competition in gAsacol and lower sales of gRevlimid were offset by new contracts for existing products, higher sales of Mirabegron and some new launches.
- Exclusivity on Mirabegron is expected to continue for a longer period due to litigation of innovator with other generics.
- Additional competition is expected to enter gAsacol post loss of CGT exclusivity.
- gRevlimid sales will be spread across the quarters for Zydus in CY25.
- Management expects flattish sales of gRevlimid in FY26.
- US sales are expected to grow in high single digit in FY26. Going ahead, it will launch 25-30 new products every year.
- The company has some limited competition product launches in H2FY27 which will drive growth.
- Imatinib (liquid formulation) will be launched in near term. The company expects one liquid formulation drug approval in near term.

NCE and biosimilars

- It received approval from USFDA to conduct phase II(b) clinical trials of Usnoflast for amyotrophic lateral sclerosis indication.
- USFDA granted an orphan drug designation to Usnoflast for ALS indication. The product will be eligible for tax credits and will also hold 7 years of marketing exclusivity.
- Phase II(b)/ III trials data readout for PBC indication for saroglitazar magnesium is expected to happen by the end of CY25.
- Phase I clinical trials for Bivalent Typhoid Conjugate Vaccine (TCV) have been completed.
- USFDA has granted a priority review for CUTX101, a copper histidinate product targeted for treatment of Menkes disease. The company has formed marketing teams and is gearing up for the launch of this product in the US.
- Pricing of CUTX101 will be in line with other rare disease products.

Novel subsidiaries

- In Sentanyl, it is looking to scale up 2 products. Management is expecting an operational breakeven of this subsidiary in FY26, mainly drive by launch of CUTX101.
- Majority of products in Zydus Therapeutics are in clinical stage. Saroglitizar will be the key near term launch from this subsidiary. The company will start incurring launch related cost post data readout towards the end of CY25.
- In Q3FY25, it spent 35% of R&D funding on development of specialty products.

Q3FY25 financials

- Gross margin was weak due to lower sales of gRevlimid and gAsacol.
- It incurred one-off expenses worth INR 950mn including sales-related incentive for US business amounting to INR 600mn, INR 210mn on legal and professional fees and INR 170mn towards GST payment for drugs which were extinguished.
- FX gain of INR 1.83bn was mainly due to weaking of rupee against the US dollar. The company does not hedge its receivables.
- Capex investment will be higher by 20-30% as compared to historical average for next 2 years.
- Capital allocation ahead will be towards adding incremental capacity (capex to go up by 20-30%), acquiring products which could fit well with the current set of innovative portfolio for US, building a new medical device business and pursuing inorganic opportunities in other international markets.

Exhibit 1: Quarterly review

Y/E Mar (INR mn)	Q3 FY25	Q3 FY24	YoY(%)	Q2 FY25	QoQ (%)	9M FY25	9MFY24	YoY(%)
Net Sales	52,691	45,052	17.0	52,370	0.6	1,67,136	1,40,136	19.3
EBITDA	13,017	10,796	20.6	14,160	(8.1)	48,250	36,731	31.4
EBITDA Margins (%)	24.7	24.0	74%	27.0	-233%	28.9	26.2	83%
Other Income	575	377	52.5	682	(15.7)	1,889	1,277	47.9
Interest	320	198	61.6	251	27.5	893	466	(46.1)
Depreciation	2,290	1,948	17.6	2,336	(2.0)	6,779	5,588	21.3
PBT	11,841	9,255	27.9	12,709	(6.8)	43,547	32,622	33.5
Tax	1,795	2,138	(16.0)	3,731	(51.9)	9,887	6,563	50.6
Tax Rate (%)	15.2	23.1		29.4		22.7	20.1	
PAT	10,046	7,117	41.2	8,978	11.9	33,660	26,059	29.2
Minority Int/Others	(189)	(779)	(75.7)	(134)	41.0	114	(716)	
Net Income	10,235	7,896	29.6	9,112	12.3	33,546	26,775	25.3
Adj. PAT	8,048	7,721	4.2	8,791	(8.5)	31,217	26,241	19.0
NPM (%)	19.4	17.5		17.4		20.1	19.1	

Source: Company data, I-Sec research

Exhibit 2: Business mix

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	% YoY	% QoQ
India Formulations	**11,251**	**12,648**	**12,316**	**12,896**	**12,270**	**13,341**	**14,273**	**13,806**	**13,758**	**14,569**	**14,982**	**5.0**	**2.8**
India Consumer	**6,916**	**4,227**	**4,120**	**7,075**	**6,936**	**4,352**	**3,974**	**7,755**	**8,366**	**4,875**	**4,488**	**12.9**	**(7.9)**
Exports	**19,224**	**20,894**	**22,576**	**27,303**	**29,933**	**23,491**	**23,759**	**30,667**	**36,926**	**30,498**	**30,062**	**26.5**	**(1.4)**
US	15,592	17,084	19,250	22,525	24,541	18,648	18,427	25,235	30,929	24,168	24,096	**30.8**	**(0.3)**
Europe & EM's	3,155	3,308	3,078	4,393	4,893	4,504	4,937	4,960	5,309	5,389	5,702	**15.5**	**5.8**
Alliances & JV	477	502	248	385	499	339	395	472	688	941	264	**(33.2)**	**(71.9)**
API	**1,224**	**1,117**	**1,881**	**1,251**	**1,389**	**1,402**	**1,431**	**1,436**	**1,415**	**1,194**	**1,703**	**19.0**	**42.6**
Total	**38,615**	**38,886**	**40,893**	**48,525**	**50,528**	**42,586**	**43,437**	**53,664**	**60,465**	**51,136**	**51,235**	**18.0**	**0.2**
US sales (USD mn)	**202**	**214**	**235**	**275**	**298**	**225**	**221**	**304**	**371**	**288**	**285**	**29.0**	**(1.0)**

Source: Company data, I-Sec research

Exhibit 3: Key growth drivers of domestic business in Q3FY25

Brands (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	MAT DEC'24	MAT DEC'23	YoY (%)
Deriphyllin	556	580	-4.2	472	17.8	2,094	2,182	-4.0
Lipaglyn	601	344	74.6	632	-4.8	2,084	1,297	60.7
Atorva	485	423	14.8	455	6.6	1,743	1,732	0.7
Thrombophob	401	413	-3.0	419	-4.5	1,622	1,568	3.4
Amicin	283	351	-19.4	397	-28.8	1,330	1,393	-4.5
Monotax	359	312	15.1	390	-7.9	1,293	997	29.8
Formonide	320	311	3.2	296	8.3	1,195	1,191	0.3
Vivitra	262	209	25.8	288	-8.8	1,155	859	34.5
Skinlite	269	296	-9.1	247	9.1	1,076	1,141	-5.6
Dexona	268	277	-3.2	279	-3.9	1,036	1,084	-4.4

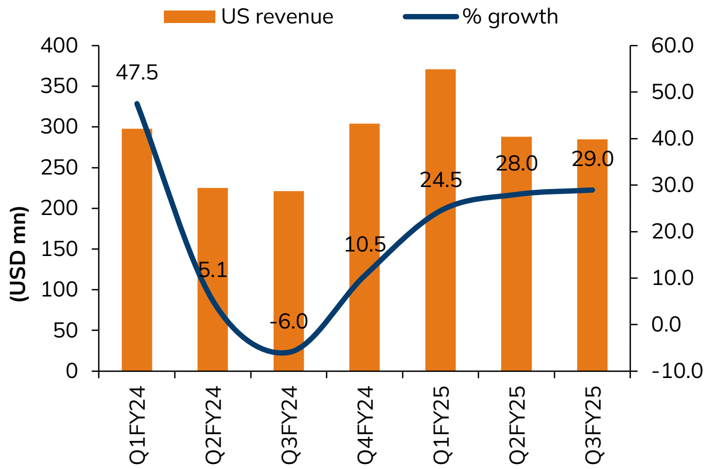
Source: IQVIA

Exhibit 4: Growth profile of key therapies in India

Therapies (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	MAT DEC'24	MAT DEC'23	YoY (%)
Cardiac	2,502	2,049	22.1	2,535	-1.3	9,361	8,141	15.0
Respiratory	2,497	2,358	5.9	2,179	14.6	9,038	8,760	3.2
Anti-Infectives	2,212	2,005	10.3	2,456	-9.9	8,501	7,676	10.8
Gastro Intestinal	1,521	1,440	5.6	1,749	-13.0	6,486	6,146	5.5
Pain / Analgesics	1,278	1,222	4.6	1,347	-5.1	5,034	4,831	4.2
Antineoplast / Immunomodulator	1,275	1,023	24.6	1,282	-0.5	5,012	4,003	25.2
Gynaec.	1,085	1,092	-0.6	1,102	-1.5	4,479	4,400	1.8
Derma	1,010	1,017	-0.7	1,009	0.1	4,069	3,836	6.1
Vitamins/Minerals/Nutrients	533	546	-2.5	579	-8.0	2,340	2,383	-1.8
Hormones	564	522	8.1	577	-2.4	2,177	2,179	-0.1

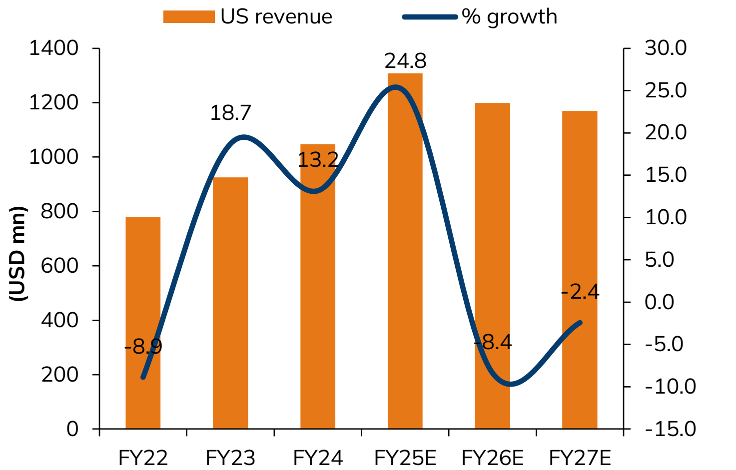
Source: IQVIA

Exhibit 5: Sequential dip was due to lower sales of gAsacol and gRevlimid



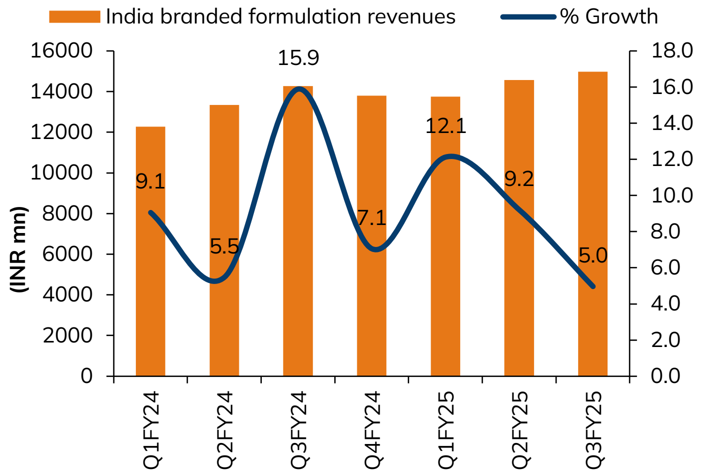
Source: I-Sec research, Company data

Exhibit 6: US sales growth may peak in FY25E



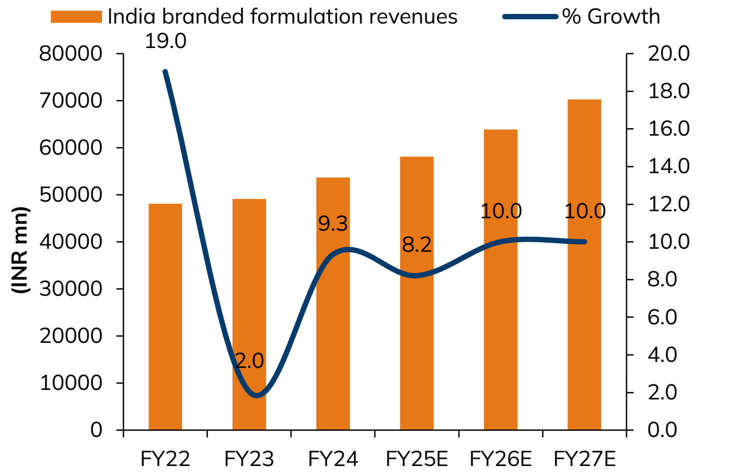
Source: I-Sec research, Company data

Exhibit 7: Domestic revenue grew 5% YoY on higher base



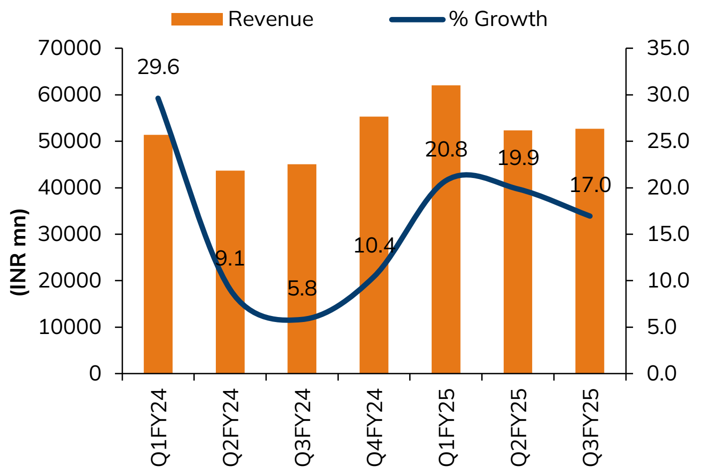
Source: I-Sec research, Company data

Exhibit 8: Traction in acute portfolio to drive 9.4% CAGR in India revenue over FY24–27E



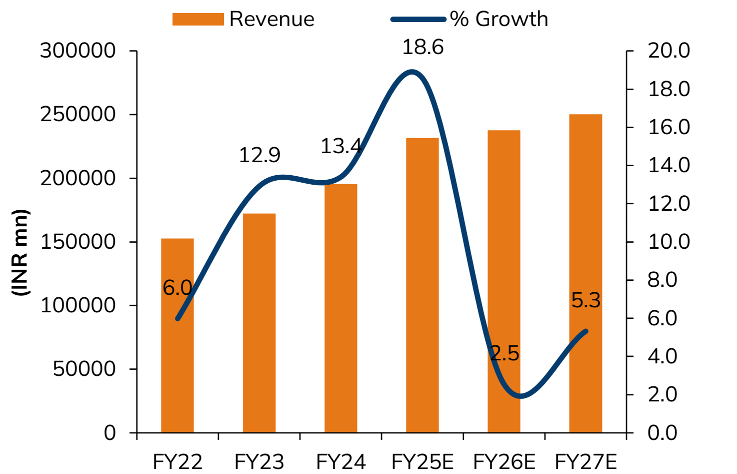
Source: I-Sec research, Company data

Exhibit 9: Growth driven by exports and API business



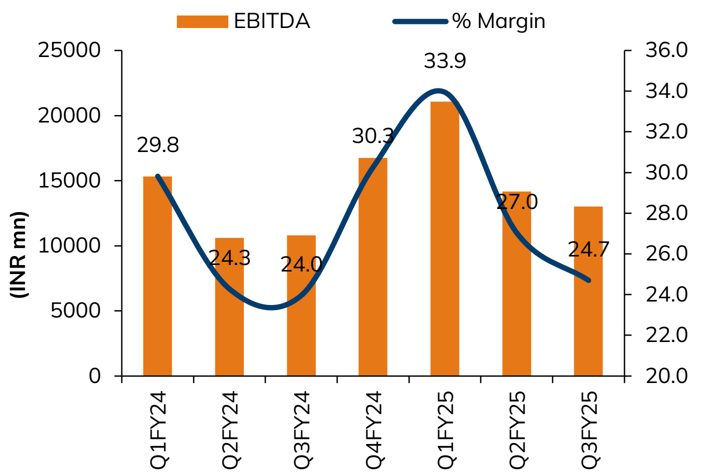
Source: I-Sec research, Company data

Exhibit 10: Revenue CAGR likely at 8.6% over FY24–27E



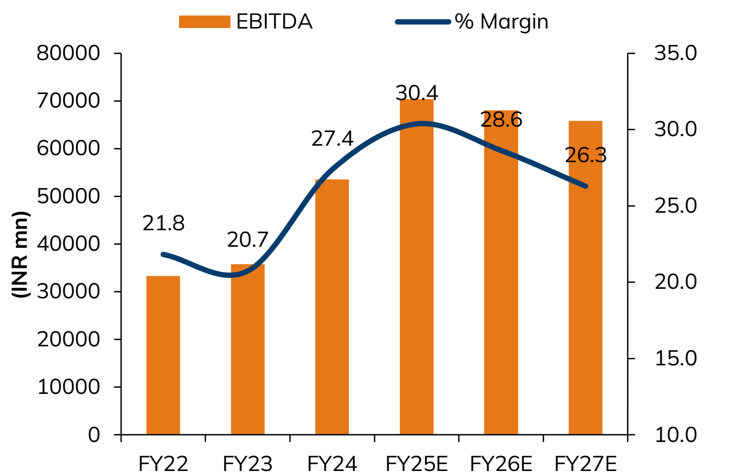
Source: I-Sec research, Company data

Exhibit 11: Margins expanded 74bps YoY



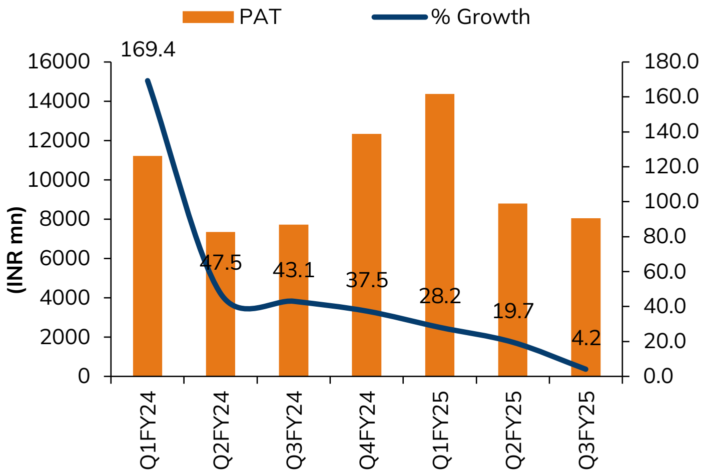
Source: I-Sec research, Company data

Exhibit 12: Exclusivities to keep EBITDA margins elevated till FY26E



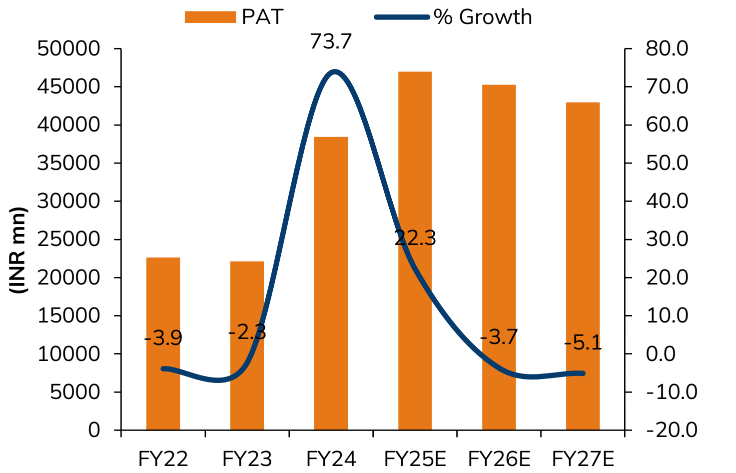
Source: I-Sec research, Company data

Exhibit 13: PAT grew at ~4.2% YoY



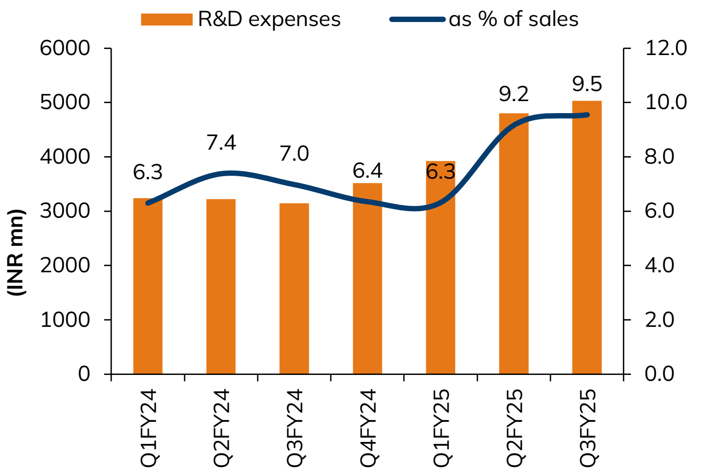
Source: I-Sec research, Company data

Exhibit 14: Net profit to grow 3.8% over FY24–27E



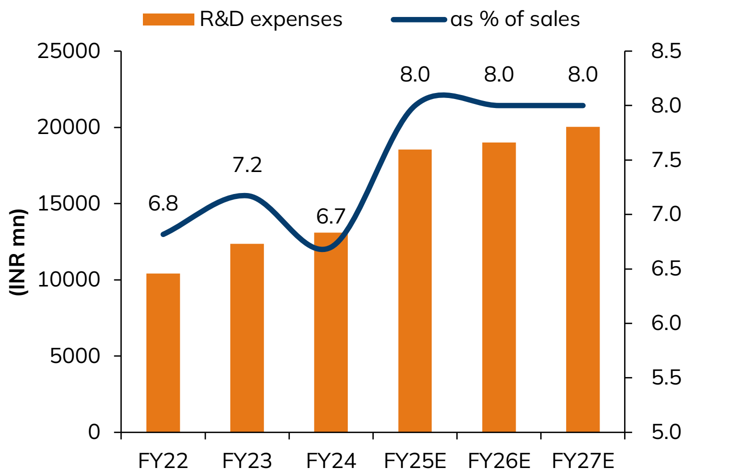
Source: I-Sec research, Company data

Exhibit 15: R&D spending surged ~60% YoY in Q3FY25



Source: I-Sec research, Company data

Exhibit 16: R&D spending to remain at 8% of sales over next few years



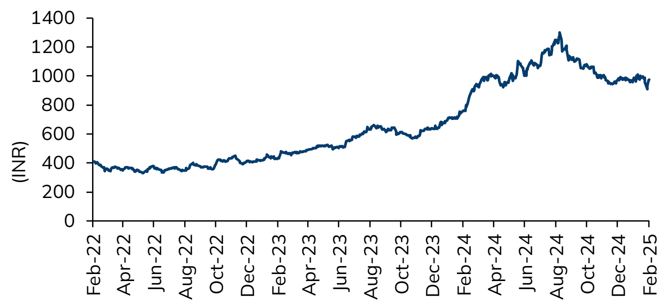
Source: I-Sec research, Company data

Exhibit 17: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	75.0	75.0	75.0
Institutional investors	18.0	18.3	18.0
MFs and others	7.2	6.8	6.3
FIs/Banks	-	-	0.1
Insurance	5.2	3.9	4.1
FIIs	5.6	7.6	7.5
Others	7.0	6.7	7.0

Source: Bloomberg

Exhibit 18: Price chart



Source: Bloomberg

Financial Summary

Exhibit 19: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	**1,95,474**	**2,31,786**	**2,37,671**	**2,50,323**
Operating Expenses	1,41,941	1,61,379	1,69,610	1,84,500
EBITDA	**53,533**	**70,407**	**68,060**	**65,822**
EBITDA Margin (%)	27.4	30.4	28.6	26.3
Depreciation & Amortization	7,641	9,396	10,235	11,074
EBIT	45,892	61,011	57,826	54,749
Interest expenditure	812	1,254	1,254	1,254
Other Non-operating Income	2,841	3,508	4,008	4,008
Recurring PBT	**47,921**	**63,265**	**60,580**	**57,503**
Profit / (Loss) from Associates	**1,184**	**-**	**-**	**-**
Less: Taxes	9,775	15,121	15,145	14,376
PAT	39,314	49,224	45,435	43,127
Less: Minority Interest	1,133	168	155	147
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	**39,365**	**49,057**	**45,280**	**42,980**
Net Income (Adjusted)	**38,430**	**47,005**	**45,280**	**42,980**

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	1,12,489	1,55,577	1,93,579	2,35,410
of which cash & cash eqv.	11,051	28,988	63,797	98,763
Total Current Liabilities & Provisions	45,626	47,875	49,222	55,583
Net Current Assets	**66,863**	**1,07,702**	**1,44,357**	**1,79,827**
Investments	8,043	8,043	8,043	8,043
Net Fixed Assets	58,033	65,041	67,830	69,983
ROU Assets	-	-	-	-
Capital Work-in-Progress	24,233	24,233	24,233	24,233
Total Intangible Assets	65,652	61,247	60,224	58,997
Other assets	7,339	7,705	7,764	7,891
Deferred Tax Assets	16,442	16,442	16,442	16,442
Total Assets	**2,47,182**	**2,91,098**	**3,29,594**	**3,66,156**
Liabilities				
Borrowings	**8,042**	**8,042**	**8,042**	**8,042**
Deferred Tax Liability	**4,465**	**4,465**	**4,465**	**4,465**
provisions	3,097	3,097	3,097	3,097
other Liabilities	10,562	12,524	12,842	13,525
Equity Share Capital	1,006	1,006	1,006	1,006
Reserves & Surplus	1,97,289	2,39,244	2,77,422	3,13,300
Total Net Worth	**1,98,295**	**2,40,250**	**2,78,428**	**3,14,306**
Minority Interest	22,721	22,721	22,721	22,721
Total Liabilities	**2,47,182**	**2,91,098**	**3,29,594**	**3,66,156**

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**43,607**	**34,952**	**51,312**	**51,461**
Working Capital Changes	(3,832)	21,413	1,604	(14)
Capital Commitments	28,343	12,000	12,000	12,000
Free Cashflow	**15,264**	**22,953**	**39,312**	**39,461**
Other investing cashflow	**(3,261)**	**-**	**-**	**-**
Cashflow from Investing Activities	(25,082)	(12,000)	(12,000)	(12,000)
Issue of Share Capital	(6)	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(3,907)	-	-	-
Dividend paid	(3,018)	(4,024)	(4,024)	(4,024)
Others	(6,280)	(991)	(478)	(471)
Cash flow from Financing Activities	(13,211)	(5,015)	(4,502)	(4,495)
Chg. in Cash & Bank balance	**5,314**	**17,937**	**34,809**	**34,966**
Closing cash & balance	11,045	28,988	63,797	98,763

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	39.1	48.8	45.0	42.7
Adjusted EPS (Diluted)	38.2	46.7	45.0	42.7
Cash EPS	45.8	56.1	55.2	53.7
Dividend per share (DPS)	3.0	4.0	4.0	4.0
Book Value per share (BV)	197.1	238.8	276.8	312.4
Dividend Payout (%)	7.7	8.2	8.9	9.4
Growth (%)				
Net Sales	13.4	18.6	2.5	5.3
EBITDA	49.7	31.5	(3.3)	(3.3)
EPS (INR)	74.8	22.3	(3.7)	(5.1)
Valuation Ratios (x)				
P/E	25.0	20.0	21.7	22.9
P/CEPS	21.3	17.4	17.7	18.2
P/BV	5.0	4.1	3.5	3.1
EV / EBITDA	18.8	14.0	14.0	13.9
P / Sales	5.1	4.3	4.2	4.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	68.1	73.0	71.4	67.4
EBITDA Margins (%)	27.4	30.4	28.6	26.3
Effective Tax Rate (%)	19.9	23.5	25.0	25.0
Net Profit Margins (%)	19.7	20.3	19.1	17.2
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(0.2)	(0.4)	(0.9)	(1.5)
Profitability Ratios				
RoCE (%)	18.0	19.9	16.1	13.6
RoE (%)	20.6	21.4	17.5	14.5
RoIC (%)	18.3	20.8	19.3	18.3
Fixed Asset Turnover (x)	3.4	3.8	3.6	3.6
Inventory Turnover Days	68	74	69	70
Receivables Days	104	112	105	106
Payables Days	42	37	35	42

Source Company data, I-Sec research

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