

# Zydu Lifesciences

BSE SENSEX  
1,386

S&P CNX  
21,545



## Stock Info

Bloomberg	ZYDUSLIF IN
Equity Shares (m)	1024
M.Cap.(INRb)/(USDb)	721.7 / 8.7
52-Week Range (INR)	721 / 421
1, 6, 12 Rel. Per (%)	9/11/42
12M Avg Val (INR M)	693
Free float (%)	25.0

## Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	192.8	213.8	232.3
EBITDA	49.4	51.2	53.9
Adj. PAT	33.4	34.5	37.0
EBIT Margin (%)	21.7	20.3	19.9
Cons. Adj. EPS (INR)	32.6	33.7	36.1
EPS Gr. (%)	45.4	3.5	7.1
BV/Sh. (INR)	206.0	232.8	261.9

## Ratios

Net D:E	-0.1	-0.1	-0.2
RoE (%)	17.3	15.4	14.6
RoCE (%)	16.2	14.5	13.8
Payout (%)	16.6	17.2	16.1

## Valuations

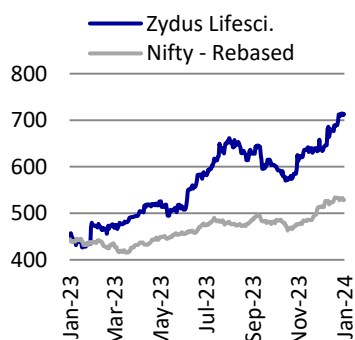
P/E (x)	21.9	21.2	19.8
EV/EBITDA (x)	14.1	13.4	12.2
Div. Yield (%)	0.8	0.8	0.8
FCF Yield (%)	4.2	2.6	4.7
EV/Sales (x)	3.6	3.2	2.8

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	75.0	75.0	75.0
DII	13.1	13.5	12.9
FII	4.9	4.0	2.6
Others	7.5	7.5	9.5

FII Includes depository receipts

## Stock performance (one-year)



**CMP: INR714**

**TP: INR710 (-1%)**

**Neutral**

## Efforts underway to improve growth prospects for key markets

We recently met the management of Zydu Lifesciences (ZYDUSLIF) to understand the outlook of the core segment in further details.

- ZYDUSLIF is making efforts to not only scale up the domestic formulation (DF) business through various initiatives but is also investing in building a niche portfolio in the NCE, biosimilar and vaccine front.
- While ZYDUSLIF is facing near-term headwinds in consumer healthcare, it continues to focus on enhancing brand franchise by leveraging various trade channels.
- After acquiring Liqmeds and securing approval for niche products such as Sitagliptin (505b2 product) and g-Vascepa, transdermals, etc ZYDUSLIF possesses an interesting product pipeline that promises significant growth in the US market.
- Additionally, ZYDUSLIF is leveraging its niche product portfolio and expanding its reach in emerging markets which is expected to further boost the overall growth.
- We raise our FY25 earnings forecast by 5%, factoring in niche launches. We expect ZYDUSLIF to end the year on a strong note, achieving a robust YoY earnings growth of 45.4%; however, we expect a modest 3.5% YoY earnings growth in FY25, partly due to higher competition in g-Asacol and a gradual improvement in the uptake of generic g-Revlimid. We value ZYDUSLIF at 20x12M forward earnings to arrive at a TP of INR710. We maintain a neutral stance on limited upside from the current levels.

## DF - Launches/renewed focus on base business to aid growth

- ZYDUSLIF is implementing various efforts to grow its DF business by increasing focus on marketing activities for core brands, ensuring widespread product availability at retailer levels, and conducting thorough regional analyses on absolute/relative basis.
- Progressive therapies like Cardiac/Respi/Gyane/Onco contributes 50% of DF revenue that would aid further growth in DF business.
- Given the strong performance in new therapies, such as Oncology as well as Nephrology, ZYDUSLIF has introduced innovative products jointly in partnership with SUN/LPC/TRP. Accordingly, we expect 10% revenue CAGR over FY24-26.

## Consumer healthcare - focusing on brand building

- ZYDUSLIF consumer healthcare franchise is facing certain challenges due to weak seasonality and slow industry growth, resulting in challenges with respect to HFD category. Further, the trademark litigation of Sugar-lite has impacted the sales from this brand, impacting the overall growth.
- With improving focus on the brand building, ZYDUSLIF has dedicated support teams for its B2B and B2C channels. Further, it is leveraging the digital media, e-com channel activations, and consumer-sampling initiatives to grow the brands. Accordingly, we expect 10% sales CAGR over FY24-26.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**US - Strong revival backed by niche launches**

- Over FY23 and 1H FY24, ZYDUSLIF has delivered a strong growth due to the launch of g-Revlimid/g-Tronkendi and other interesting launches such as Indomethacin suppository and Plerixafor injection. Apart from this, the company has interesting product pipelines, comprising transdermals, REMS products, and other limited competition products such as g-Vascepa. This would enable ZYDUSLIF to offset the impact from potential competition in g-Asacol.
- Further, ZYDUSLIF is set to bolster the synergistic benefits from the Liqmed acquisition. Also, the gradual ramp-up of Sitagliptin (505b2 product) in the US is expected to yield benefits over the medium term. Accordingly, we expect 8% sales CAGR over FY24-26.

**Emerging markets and European formulation business - another growth driver**

- ZYDUSLIF has exhibited superior execution in the emerging market/ EU segment with 10.5% sales CAGR over FY19-23. Even in 1H FY24, it has delivered 23% YoY growth. The focus has been in select countries of the Europe, Asia-Pacific region, Middle East, Africa, and LATAM. Further, the company is leveraging its biosimilar and vaccine portfolio in these markets, which would further drive the growth. Accordingly, we expect 19% CAGR over FY24-26.

**Valuation and view**

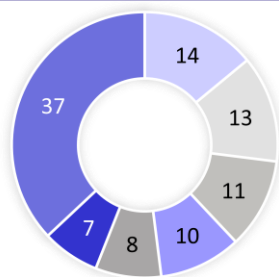
- The efforts are underway to improve growth prospects across key markets of US/DF and emerging markets.
- We raise our earnings estimate by 5% for FY25, factoring in a) strong traction in biologics and vaccine portfolio in DF, b) focusing on the niche product pipeline in the US, and c) leveraging specialty portfolio and expanding reach in the emerging markets.
- We expect ZYDUSLIF to register 3.5% YoY earnings growth in FY25, partly due to higher competition in g-Asacol and gradual improvement in the offtake of generic g-Revlimid.
- We continue to value ZYDUSLIF at 20x 12M forward earnings to arrive at a price target of INR710. We maintain our Neutral stance on the stock on limited upside from its current levels.

**Exhibit 1: Valuation snapshot**

Company	Reco	MCap (USD B)	EPS (INR)			EPS Gr. YoY (%)		PE (x)		EV/EBITDA (x)		ROE (%)		
			FY24E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E	FY26E
Ajanta Pharma	Buy	3.3	61.1	74.4	89.5	21.7	20.3	28.9	24.1	21.9	16.1	21.1	21.9	22.3
Alembic Pharma	Neutral	1.8	28.6	33.8	38.0	18.2	12.3	23.7	21.1	14.8	15.7	12.1	12.9	13.0
Alkem Lab	Neutral	7.5	149.2	173.0	183.7	15.9	6.2	30.0	28.2	25.8	21.0	18.4	18.5	17.1
Aurobindo Pharma	Neutral	7.9	51.2	58.7	67.5	14.6	15.1	19.1	16.6	10.1	9.9	10.6	11.0	11.4
Biocon	Neutral	4.0	7.2	13.1	16.9	82.5	29.1	21.5	16.7	13.9	12.2	4.7	8.3	10.0
Cipla	Buy	12.3	47.4	53.4	57.5	12.5	7.8	24.2	22.4	14.2	13.1	14.6	14.3	13.6
Divi's Lab.	Neutral	12.6	60.9	81.1	97.4	33.2	20.1	49.1	40.9	35.5	30.3	12.1	14.7	15.9
Dr Reddy's Labs	Neutral	11.5	296.7	308.8	324.9	4.1	5.2	18.6	17.7	10.5	9.9	19.5	17.2	15.5
Eris Lifescience	Neutral	1.5	33.0	33.5	40.7	1.6	21.5	27.3	22.5	14.4	12.4	19.1	17.0	17.6
Gland Pharma	Buy	3.8	54.4	65.7	74.5	21.0	13.3	29.5	26.1	17.9	15.7	10.6	11.5	11.6
Glenmark Pharma	Neutral	3.0	24.1	39.3	48.0	63.2	22.2	22.6	18.5	9.9	8.5	6.8	10.1	11.2
Glaxosmit Pharma	Neutral	4.3	38.1	42.1	46.4	10.5	10.1	49.6	45.0	35.8	31.6	30.8	30.4	29.5
Granules India	Buy	1.1	19.4	27.1	34.9	40.0	28.6	15.1	11.8	8.7	6.6	15.3	18.1	19.4
Ipca Labs.	Neutral	3.3	24.5	36.9	49.0	50.8	32.8	29.9	22.5	16.4	13.0	10.2	13.9	16.2
Laurus Labs	Buy	2.7	9.1	16.9	19.0	84.5	12.7	25.2	22.4	13.8	12.9	11.6	18.7	18.1
Lupin	Sell	7.5	36.0	40.7	48.3	13.0	18.7	34.3	28.9	17.3	15.1	12.3	12.3	13.0
Piramal Pharma	Buy	2.3	1.4	3.0	4.6	112.1	52.7	47.4	30.8	17.4	14.6	2.5	4.9	7.1
Sun Pharma.Inds.	Buy	37.7	39.5	45.6	53.7	15.5	17.7	29.0	24.7	20.6	17.8	15.9	16.0	16.4
Torrent Pharma.	Neutral	9.5	50.1	66.3	79.5	32.4	19.9	35.3	29.4	20.1	17.4	23.3	26.9	32.3
<b>Zydus LifeScience</b>	<b>Neutral</b>	<b>8.8</b>	<b>32.6</b>	<b>33.7</b>	<b>36.1</b>	<b>3.5</b>	<b>7.1</b>	<b>21.1</b>	<b>19.8</b>	<b>13.3</b>	<b>12.2</b>	<b>17.3</b>	<b>15.4</b>	<b>14.6</b>

Source: MOFSL, Company

Respiratory is ZYDUSLIF's biggest therapy, contributing 14% to DF sales



- Respiratory
- Anti-Infectives
- Cardiac
- Gastro Intestinal
- Pain / Analgesics
- Gynaec.
- Others

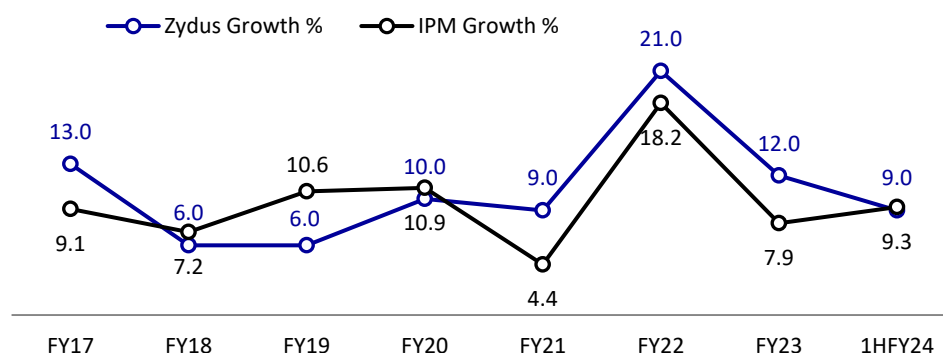
## DF: Launches/renewed focus on base business to aid growth

- ZYDUSLIF has underperformed IPM over FY17-20. However, with concentrated efforts toward marketing and increasing reach, it has been able to outperform industry over FY21-23.
- The company has implemented various measures to boost the growth in the DF business, apart from introducing innovative drugs such as Lipaglyn, Bilypsa, Oxemia, and Ujvira.
- ZYDUSLIF also has out-licensing tie-up with other leading companies in the DF segment for volume expansion of its innovative drugs.
- Accordingly, we expect 10% sales CAGR in the DF segment over FY24-26.

### ZYDUSLIF surpasses IPM with enhanced growth efforts in the last three years

- DF sales registered a 9% CAGR over FY18-20, compared to industry growth of 11% during the same period.
- Over FY18-20, DF sales underperformed IPM due to several factors including loss of prescription share in the chronic business segment, portfolio rationalization, GST adjustment, and the impact of NLEM pricing.

#### Exhibit 2: In 1HFY24, ZYDUSLIF registered inline growth with IPM



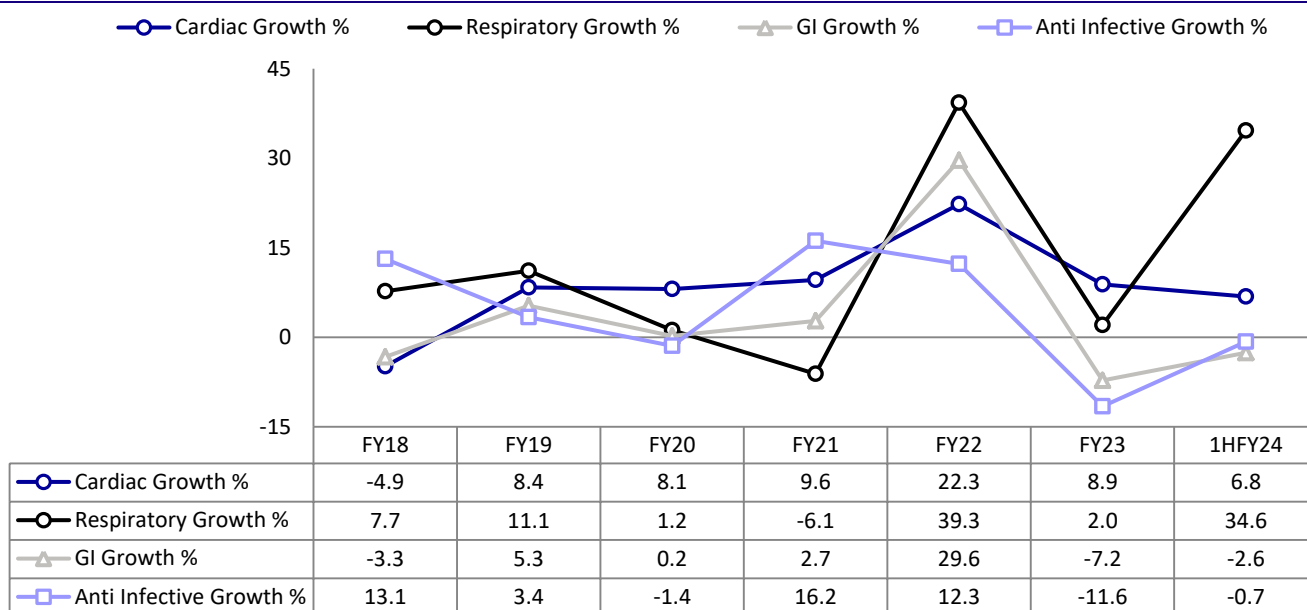
Note: ZYDUSLIF growth is adjusted for any one-off events, Source: MOFSL, IQVIA

- Over FY21-23, the company has mostly outperformed IPM due to the restructuring of the formulation business, increased demand, strong traction in new product launches, and expansion of the specialty portfolio.
- However, 1HFY24, ZYDUSLIF delivered a 9% YoY growth compared to the industry growth of 9.3% due to NLEM price revision and certain legacy product having lower scope of growth.
- The decline in 1HFY24 was offset by healthy traction in the biologics portfolio.

### Moderate show in Cardiac/Gastro/Gynae drags the overall performance

- ZYDUSLIF's DF business (27% of 1HFY24 sales) performed in line with IPM in MAT Nov'23.
- Respiratory therapy outperformed the market growth by 2.6% due to strong traction in the top brands. In 1HFY24, respiratory therapy grew by 34% YoY compared to industry growth of 4.9% YoY.

- Other emerging therapies such as Oncology and Nephrology have exhibited healthy performance with a quarterly sales run rate of INR1b.

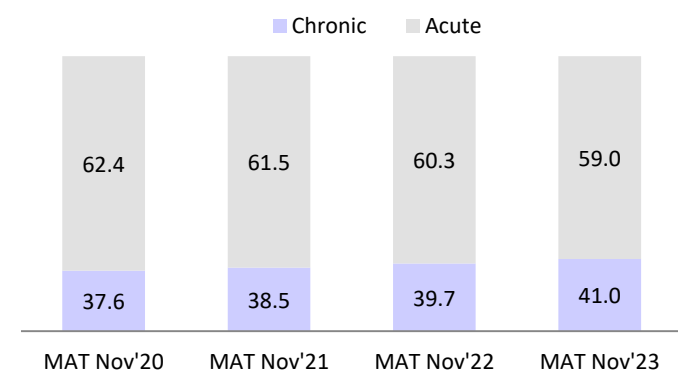
**Exhibit 3: Respiratory therapy driving the overall growth in domestic business**

Source: MOFSL, Company

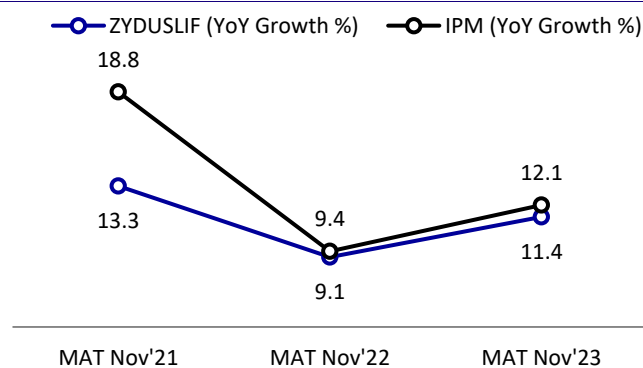
- However, Gastro/Gynae/Cardiac underperformed the market growth by 9.3%/7.0%/5.1%, dragging the overall performance of the domestic business on MAT Nov'23 basis.
- Additionally, in 1H FY24, Anti-infective/Pain exhibited muted performance compared to IPM. However, over the past three months, Anti-infective therapy has demonstrated mid-teens growth due to superior growth in key brands.

**Rising contribution from Chronic segment driving growth**

- ZYDUSLIF has been focusing on improving contribution from the chronic space. The contribution has improved from 38% in MAT Nov'20 to 41% in MAT Nov'23.

**Exhibit 4: Chronic contribution has increased to 41%**

Source: MOFSL, IQVIA

**Exhibit 5: ZYDUSLIF Chronic portfolio is outperforming IPM**

Source: MOFSL, IQVIA

- ZYDUSLIF registered a revenue CAGR of 10.2% over MAT Nov'20-23 due to superior performance of Chronic therapies, 210bp higher than IPM, which is offset by underperformance in Acute therapy, 380bp lower than IPM.

### Lipaglyn/Monotax/Amicin are driving the growth, offset by muted performance in Skinlite

- Lipaglyn (Saroglitazar), used for reducing cholesterol in type-2 diabetic patients, commands a substantial market share of 62%. Among ZYDUSLIF's brand franchises, Lipaglyn ranks as the 5<sup>th</sup> largest, generating a revenue of INR1.3b in the MAT Nov'23 period. Its 43% sales CAGR over MAT Nov'20-23 surpassed the industry sales CAGR of 10% during the same period.
- Monotax brand is prescribed for the treatment of bacterial infections in the body. ZYDUSLIF has clocked 33% sales CAGR for this brand compared with the cardiac industry CAGR of 14% during MAT Nov'20-23. Currently, ZYDUSLIF has a 6% market share in Monotax.
- Amicin brand is one of the largest brands for ZYDUSLIF with a market share of 16.8%, leading the growth in Anti-infective therapy with 22% sales CAGR over MAT Nov'20-23. Amicin has outperformed IPM by 800bp over MAT Oct'23.

**Exhibit 6: All top 10 brands except skinlite are driving growth**

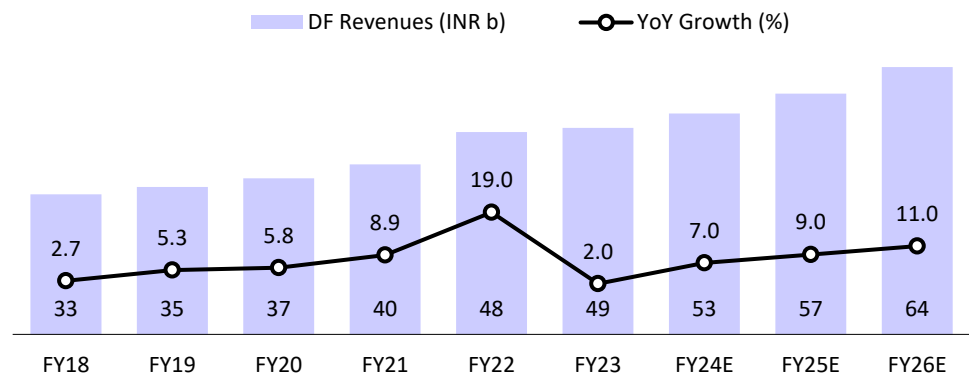
Drug	Therapy	MAT Nov'23			Growth (%)	
		Value (INR m)	Growth (%)	Market share (%)	Last 6M	Last 3M
<b>Total</b>		<b>60,687</b>	<b>8.6</b>	<b>100.0</b>	<b>6.3</b>	<b>6.3</b>
Deriphyllin	Respiratory	2,184	10.7	99.6	4.3	9.7
Atorva	Cardiac	1,728	3.7	19.1	-8.6	-9.5
Thrombophob	Blood Related	1,552	18.0	93.3	18.1	18.8
Amicin	Anti-infective	1,390	21.5	16.8	19.0	18.6
Lipaglyn	Cardiac	1,274	36.3	61.5	31.1	29.2
Formonide	Respiratory	1,194	13.5	8.8	6.1	3.0
Skinlite	Derma	1,152	-11.9	34.7	-14.4	-8.9
Dexona	Immunomodulator	1,087	6.0	69.2	0.1	4.2
Monotax	Anti-infective	973	34.1	6.0	23.5	41.6
Deca Durabolin	Immunomodulator	926	0.2	63.9	-5.0	-14.7

Source: MOFSL, IQVIA

- Skinlite brand revenue has declined by 12% over MAT Nov'23, supported by a volume decline of 12% over the same period.

### Innovative products to drive growth

- ZYDUSLIF has implemented various measures to revive the growth in the DF segment by increasing focus on marketing activities, product availability at retail level as well as extensive regional analysis on absolute/relative basis to deliver inline growth with industry.
- ZYDUSLIF has introduced innovative products such as Oxemia (Mar'22) and Ujvira (May'21), which have bolstered growth in the DF business. It also intends to add more differentiated offerings in the coming years, including Dydrogesterone.

**Exhibit 7: Expect sales to register 10% CAGR over FY24-26**

Source: MOFSL, Company

- Additionally, ZYDUSLIF has entered into an out-licensing agreement with SUN for Desidustat and Torrent/Lupin for Saroglitazar. Further, the company intends to enter into more out-licensing agreements for growth.
- Furthermore, ZYDUSLIF is focusing on the biologics and has commercialized 13 products. Currently, there are 17 projects under pipeline in the biologics business.
- With renewed focus and product introductions, ZYDUSLIF expects to improve the growth momentum and outperform industry over the medium term. Accordingly, we expect 10% sales CAGR for DF to INR64b over FY24-26.

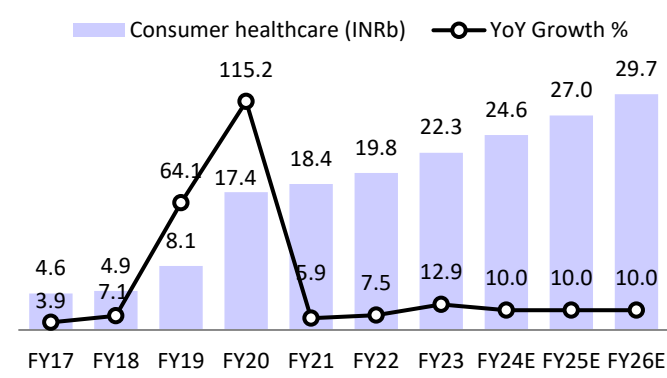
## Consumer healthcare: Focusing on brand building

- Consumer healthcare (31% of Domestic revenue) has registered 30% CAGR over FY17-23 through enhanced marketing efforts in its key brands and by acquisition of Heinz India.
- In 1HFY24, the growth in flagship brands such as Glucon-D and Complan have slowed down, while other brands such as Nycil and Ever-Youth have registered strong growth. Further, elevated raw material prices have adversely impacted margins.
- By leveraging new business channels and campaigns, ZYDUSLIF expects sales and profitability to improve going forward.
- Compared to the flat growth in 1HFY24, we expect 10% CAGR over FY24-26.

## Industry headwinds to impact near-term growth

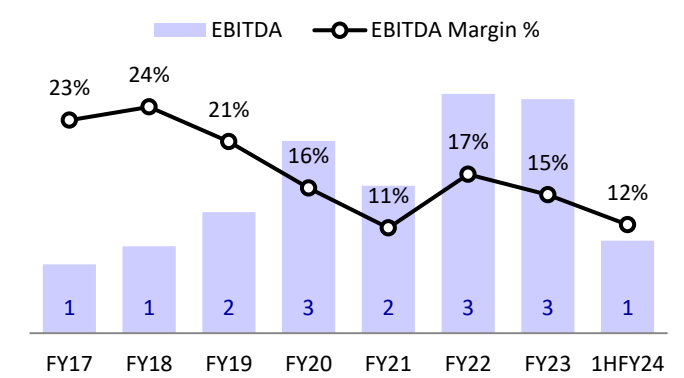
- ZYDUS's consumer healthcare franchise has delivered 30% CAGR over FY17-23, due to strong brand recall, superior execution, and the acquisition of Heinz India (Glucon-D, Complan, Nycil, and Sampriti Ghee).
- In 1HFY24, the consumer healthcare business witnessed a mere 1% YoY growth, amounting to INR11.4b, primarily due to unfavorable seasonality impacting Glucon-D.
- The industry slowdown also had an influence on the growth of the Complan brand, but double-digit growth was seen in products such as Nycil and Ever-Youth.
- Additionally, ZYDUSLIF has stopped the sales of Sugar-lite brand due to trademark-related litigation. This has adversely impacted the overall growth in sweeteners portfolio.
- Over FY20-23, the EBITDA margin declined, due to elevated raw material prices, which has been offset by a decline in employee cost and other expenses.
- In 1HFY24, EBITDA margins further deteriorated due to high employee cost and other expenses as the ad spends increased; this was offset by a slight decline in raw material prices.

**Exhibit 8: Expect Consumer healthcare segment to clock 10% CAGR over FY24-26**



Source: MOFSL, Company

**Exhibit 9: EBITDA margins on downtrend**



Source: MOFSL, Company

- Being in an intense competitive market, ZYDUSLIF is focusing on increasing volume supported by dedicated B2B and B2C teams. Further, ZYDUSLIF is leveraging the digital media, e-com channel activations, and consumer sampling initiatives to grow the brands.
- Also, as growth prospects revive and raw material prices soften, we anticipate an enhancement in sales and profitability moving forward.
- Accordingly, we expect 10% CAGR over FY24-26 to INR30b.

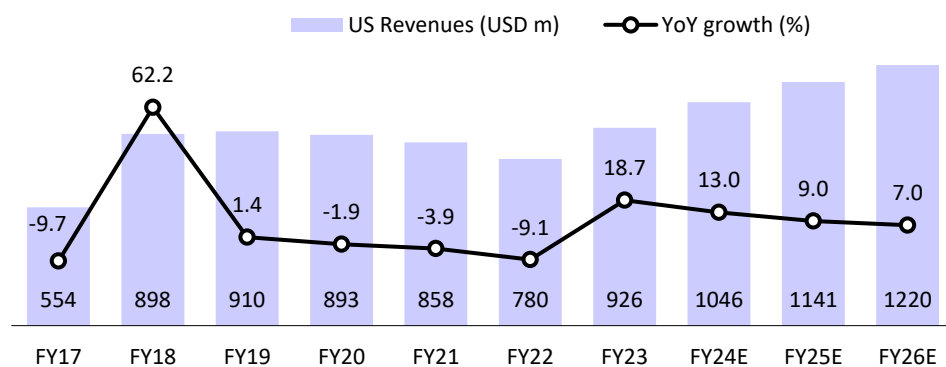
## US: Strong revival backed by niche launches

- Over FY19-22, US sales were flat on adjusted bases; however, in FY23, the company registered superior growth, due to new product launches and an increase in market share.
- ZYDUSLIF has an interesting complex pipeline and is set to reap the benefits from the liqmed acquisition on specialty portfolio side as well.
- Transdermal launches, the scale-up of Sitagliptin, additional market share for g-Revlimid, and healthy pace of launches would drive ~8% sales CAGR over FY24-26.

### Niche products driving the growth of US business

- Over FY19-22 US sales declined (in USD terms) however excluding levorphanol and Sentyln specialty business US sales were flat.
- However, ZYDUSLIF has exhibited 19% YoY growth in FY23 to USD926m on the back of launch of g-Revlimid/g-trokendi and market share gain of the existing products.
- Even in 1HFY24, ZYDULIF delivered 25% YoY growth in US sales to USD523m on the back of new launches, including Indomethacin suppository, which was granted 180 days of CGT exclusivity, and Plerixafor injection, which was a Day-1 launch.
- ZYDUSLIF has an interesting product pipeline of transdermals, REMS products, limited competition products such as g-Vascepa, in addition to higher volume off-take of g-Revlimid. These collectively support further growth prospects in the US generics segment over the next 12-24 months.

**Exhibit 10: US generics to deliver 8% CAGR over FY24-26**



Source: MOFSL, Company

- Additionally, on the specialty front, ZYDUSLIF has Sitagliptin (505b2), liqmeds differentiated portfolio, and Ultra rare disease portfolio. The company is looking to expanding this portfolio through organic and inorganic means by acquiring late stage development products.
- Further, ZYDUSLIF is implementing efforts to gain access to PBM contracts for sitagliptin (Zituvio); the prescription generations remain the key given it is 505b2 product.
- ZYDUSLIF has about three to four out-licensing agreements for the UK market and five to six out-licensing agreements for drugs in the Liqmed basket for the US market. Around 10 to 15 goods have been approved, and more are anticipated in the future. For the time being, the products' manufacturing is

outsourced. Apart from the USD60m paid to acquire Liqmeds, ZYDUSLIF will make investments contingent on specific future benchmarks.

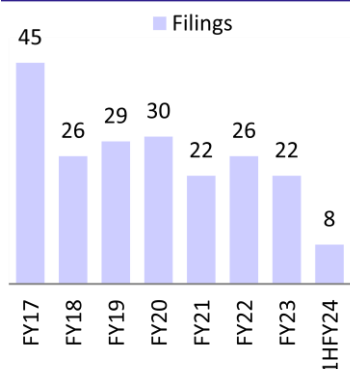
- Accordingly, we expect ZYDUSLIF to deliver ~8% sales CAGR over FY24-26 to USD1.2b.

**Exhibit 11: Key approvals over last six months**

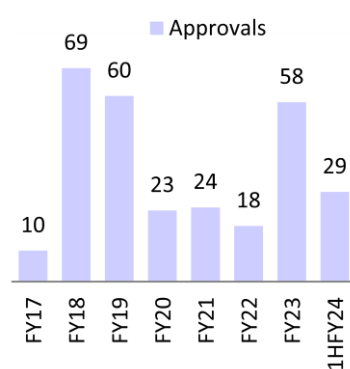
API	Approval type	Innovator	Innovators Brand	Dosage	Strength	Indication	Players	MAT Annual Sales (USD M)	Remarks
Icosapent Ethyl	Final	Amarin	Vascepa	Capsule	0.5/1g	Reduce triglyceride	5+	1316	Interesting opportunity
Balsalazide Disodium	Final	Valeant	Colazal	Capsules	750mg	Ulcerative colitis	3	29	Interesting opportunity
Plerixafor	Final	Genzyme	Mozobil	Injection	24mg/1.2ml	Immunostimulant	5+	210	Interesting opportunity
Lubiprostone	Final	Sucampo	Amitiza	Capsule	8/24mcg	Constipation	5	197	Decent opportunity
Roflumilast	Final	Astrazene ca	Daliresp Tablets	Tablet	250mcg	Copd	4	34	Decent opportunity
Sucralfate	Final	Abbvie	Carafate	Tablets	1gram	Treat and prevent ulcers	5	84	Decent opportunity
Tadalafil	Final	Eli lilly	Adcirca	Tablets	20mg	Pulmonary arterial hypertension	5+	61	Decent opportunity
Varenicline	Final	Pf prism cv	Chantix	Tablets	0.5/1mg	Smoking addiction	4	501	Decent opportunity
Oxcarbazepine	Final	Novartis	Trileptal	Tablet	150/300/600mg	Epilepsy	5+	105	Decent opportunity
Doxepin Hydrochloride	Final	Pfizer	Sinequan	Capsule	10/25/50/75/100/150mg	Depression/anxiety	10+	29	Highly competitive
Levothyroxine Sodium	Final	Mylan/azurity	Ermeza/Thyquidity/Tirosint-Sol	Injection	100/200/500 mcg/vial	Hypothyroidism	5+	52	Highly competitive
Loperamide Hydrochloride	Final	Johnson and johnson	Imodium	Capsule	2mg	Diarrhea	5+	35	Highly competitive
Acetazolamide	Final	Teva	Diamox	Tablet	125/250 mg	Glaucoma	5+	16	Highly competitive
Azithromycin	Final	Pfizer	Zithromax	Tablet	500mg	Bacterial infections	5+	20	Highly competitive
Tavaborole Topical Solution	Final	Anacor	Kerydin	Solution	5%	Fungal toenail infections	5+	3	Highly competitive
Isoproterenol Hydrochloride	Final	Bausch	Isuprel	Injection	0.2mg/mL	Hemodynamic status	5+	28.5	Highly competitive
Estradiol Transdermal System	Final	Bayer healthcare	Menostar Transdermal System	Transdermal	0.014mg/day	Postmenopausal osteoporosis	5+	1.9	Highly competitive
Metoprolol Tartrate	Final	Validus	Lopressor	Tablet	25/50/100mg	High blood pressure	5+	45.2	Highly competitive
Metronidazole	Final	Galderma	MetroCream	Cream	0.75%	Skin disorder	5+	25	Highly competitive
Esomeprazole Magnesium	Final	Astrazene ca	Nexium Delayed-Release	Capsule	20/40mg	Stomach and esophagus problems	5+	42	Highly competitive
Diclofenac Sodium and Misoprostol	Final	Pfizer	Arthrotec	Tablets	75/200mg	Osteoarthritis and rheumatoid arthritis	5+	13	Highly competitive
Minocycline Hydrochloride	Final	Bausch	Solodyn Tablet	Tablet	55/65/115mg	Moderate to severe acne	5+	0.7	Highly competitive

Source: MOFSL, Company

### Over FY18-23, ZYDUSLIF is filing around 20-30 products per year



### ZYDUSLIF has one of the highest approval rates in the industry



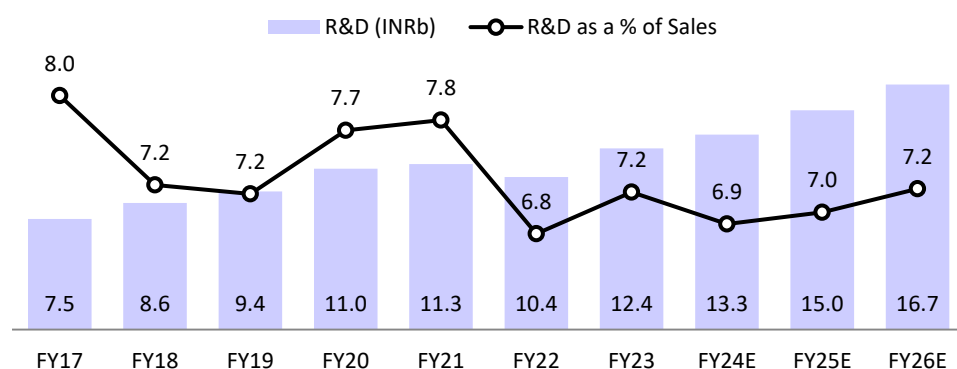
## R&D: Building a niche pipeline

- The current R&D spend is 7% of sales and a majority of investments is made in generic products.
- In addition to a generic portfolio, comprising complex and limited competition products, the company aspires to develop its own specialty and New chemical entity (NCE) portfolio as well.

### Building limited competition and niche pipeline in Generic portfolio

- The R&D spend in the generic segment has been the blend of limited competition products as well as basket offerings.
- It is among the few to have had 25-30 annual filings over FY19-23. Even in 1HFY24, it has filed 8 ANDAs, maintaining the momentum of filings for US generics. Overall, it has 58 ANDAs pending for approval at the end of 1HFY24. Apart from this it has 24 tentative approvals as at the end of 1HFY24.

### Exhibit 12: Expect R&D expense to be 7.2% in FY26



Source: MOFSL, Company

- The company is focusing on complex products such as injectables, transdermal, and solutions. The company is moving up the value chain by filing complex modified oral solids and first to file drugs.
- Going forward the proportion of spending on NCE, biosimilar, Vaccine and specialty products out of total budget will go up.

### NCE drugs: Future growth drivers of the company

- In 1HFY24, the company invested around INR3b (45% of the total R&D) in the NCE, biosimilars and vaccines business.
- With a dedicated arm Zydus Research Centre (ZRC), the company is focusing on the cardiometabolic illnesses, inflammation, fibrosis, and infectious diseases.
- Currently, the company has Lipaglyn, Bilypsa, and Oxemia brands under NCE, which are launched in India. However, these brands are under development in the US and China markets.

**Exhibit 13: Interesting NCE product pipeline under development**

Name	Indication	Clinical Development	Geography
Saroglitazar	PBC & NASH	PhIIb NASH, PhIIb/III PBC	US
Desidustat	CIA	PhIb	US
ZYIL 1	CAPS/orphan	PhIIa	-
ZYBK2	Arthritis	PhIb	-
ZY19489	Anti-Malaria	PhII	-
Desidustat	CKD	PhIV	India
Desidustat	CKD	PhIII	China

Note: PBC- Primary Biliary Cholangitis, NASH- Non-Alcoholic Steatohepatitis, CIA- Chemotherapy Induced Anemia, CAPS-cryopyrin-associated periodic syndrome, CKD- Chronic Kidney Disease

Source: MOFSL, Company

- ZYDUSLIF has other drugs such as ZYIL 1 and ZY19489, which are under phase II clinical trials. Recently ZYIL1 has received approval for clinical trials in patients with Parkinson's disease.
- Further, the phase II trials related to Nash indication for Saroglitazar Mg is expected to be completed in CY25. Subsequently, ZYDUSLIF would explore the out-licensing opportunity to fund further stages of clinical trials.
- It has recruited over 80% of the patients required for the PBC-related phase IIb/III trials.
- Along with this, ZYDUSLIF is focusing on vaccine business. The pipeline includes Hepatitis E vaccine, Hepatitis A vaccine, MMRV vaccine, and Bivalent HPV vaccine, as well as a few vaccines in the early development stage.
- Additionally, ZYDUSLIF has submitted a dossier for Typhoid Conjugate vaccine (TCV) to WHO for pre-qualification. It has launched MMRV vaccine in India and has around USD724m market size as of 2021 (according to Brand Essence).
- The expected expansion of ZYDUSLIF's vaccine business over the next two to three years is anticipated to escalate due to the increased demand for limited competition products such as the TCV/MMR vaccine and the ensuing tender business related to these vaccines.

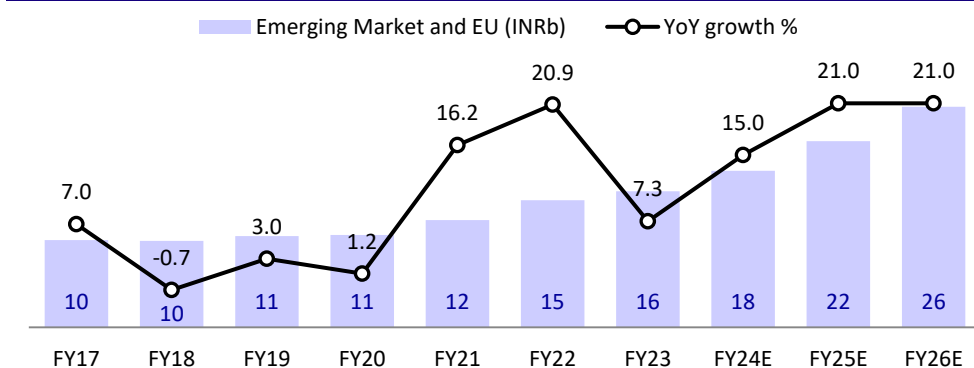
## Emerging market and European formulation business: another growth driver

- Emerging markets and EU (10% of total sales) grew at 7% over FY17-23. In 1H FY24, the company registered a 23% YoY growth due to superior execution.
- ZYDUSLIF is focusing on expanding the reach, launching new products and increasing market penetration in the existing market.
- Accordingly, we expect ~19% sales CAGR over FY24-26.

### Niche launches/expansion in new markets to aid growth

- ZYDUSLIF has exhibited superior execution in the emerging market and EU segment with 7% sales CAGR over FY17-23.
- In FY21/FY22, the company registered a strong high teens growth of 16%/21% due to an increase in volume, launches of key products such as Pegfilgrastim and strong performance in LATAM, Russia, Philippines, and other CIS countries.
- In FY23, the EM and EU market registered a moderate growth of 9% YoY due to high inflation, and spill over of Russia-Ukraine war. While, in 1H FY24, the company has delivered 23% YoY growth due to strong growth momentum in key markets.
- ZYDUSLIF has predominantly branded generic play in select therapies for emerging markets. The focus has been in select countries of Asia-Pacific region, Middle East, Africa, and LATAM.

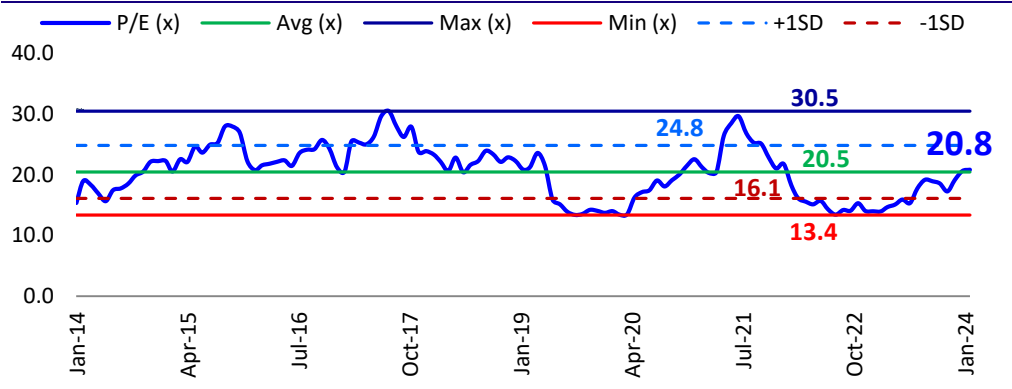
**Exhibit 14: Expect emerging markets and EU to clock 19% CAGR over FY24-26**



Source: MOFSL, Company

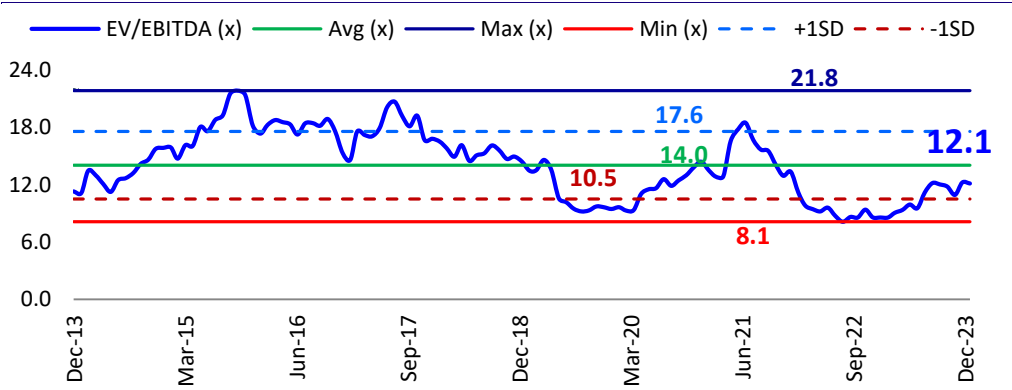
- ZYDUSLIF is focusing on leveraging the R&D pipeline by launching biosimilars and vaccines and continues to file dossiers in Europe, Asia, Africa, and Latin America. Also, it plans to expand its presence in other markets through partnership with the local players.
- With new product launches, increased penetration, and higher traction of existing products, ZYDUSLIF remains confident in sustaining its growth momentum within these markets over the next two to three years.
- Accordingly, we expect 19% CAGR over FY24-26 to INR26b.

Exhibit 15: P/E chart



Source: MOFSL, Company, Bloomberg

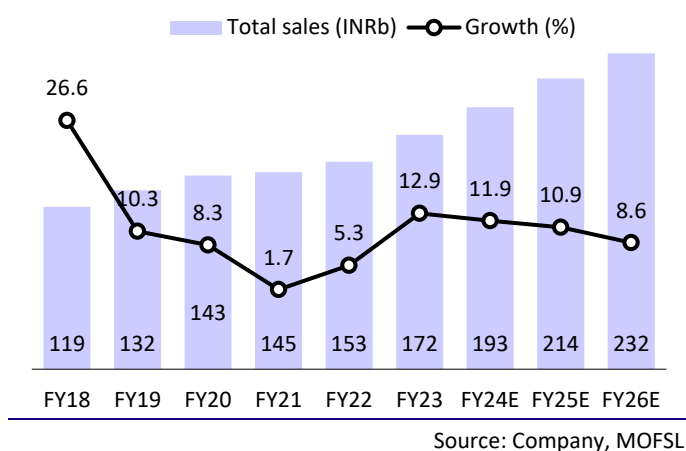
Exhibit 16: EV/EBITDA chart



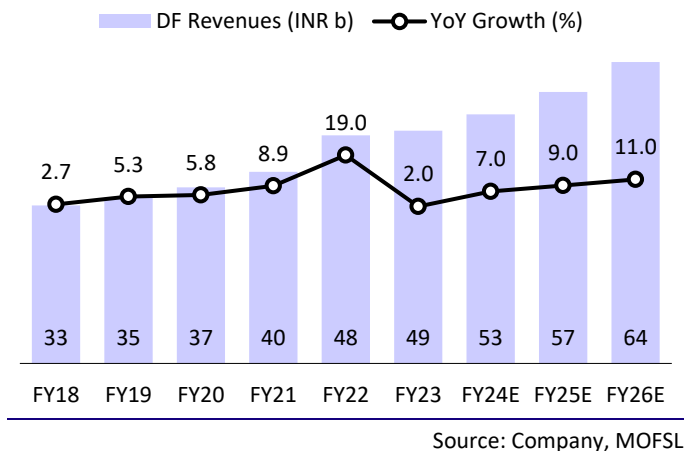
Source: MOFSL, Company, Bloomberg

## Story in charts

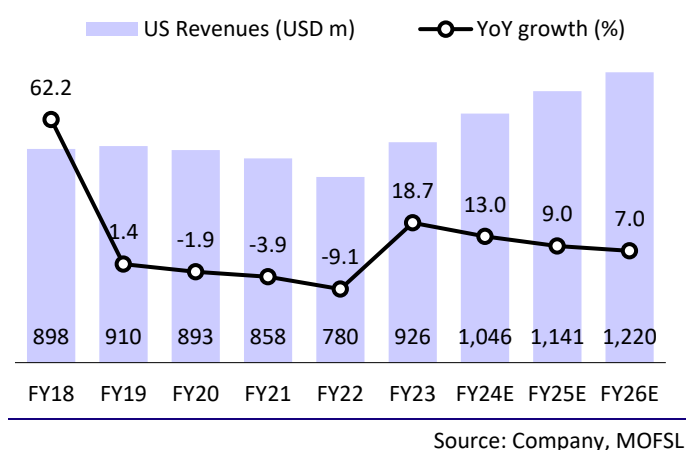
**Exhibit 17: Revenue to see 10% CAGR over FY24-26**



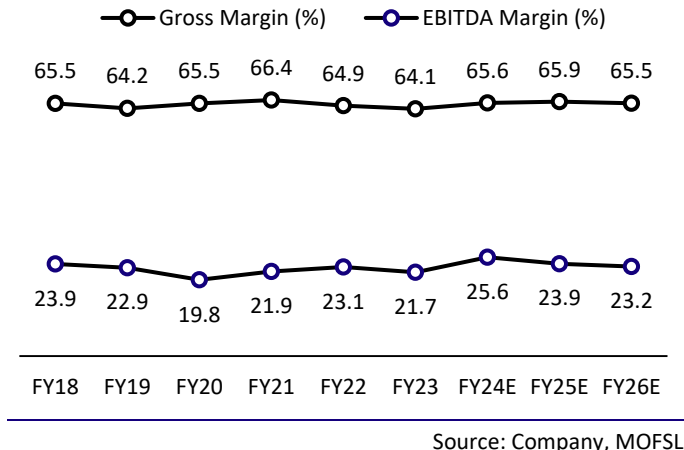
**Exhibit 18: DF to clock 10% sales CAGR over FY24-26**



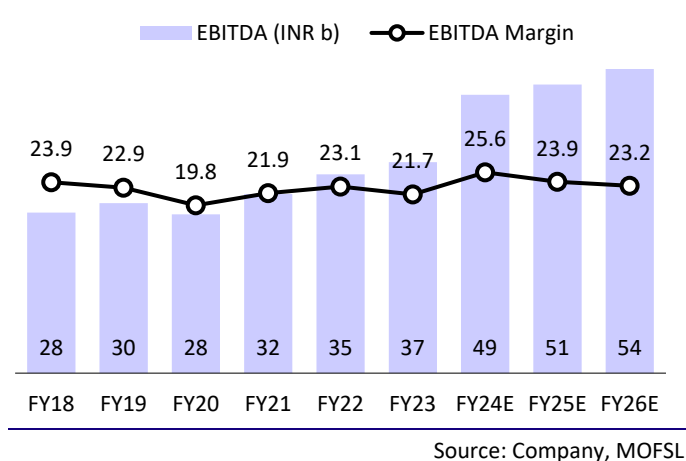
**Exhibit 19: US sales to witness 8% CAGR over FY24-26**



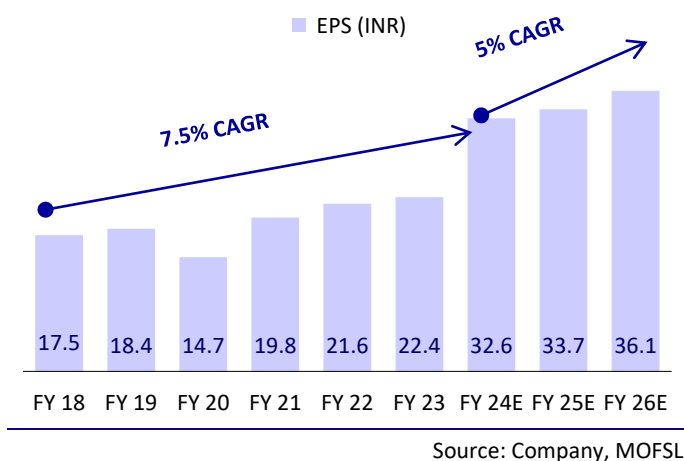
**Exhibit 20: EBITDA margin to be stable over FY24-26**



**Exhibit 21: Expect ~4.5% CAGR in EBITDA over FY24-26**



**Exhibit 22: Expect ~5% CAGR in Adj.EPS over FY24-26**



## Financials and valuations

Income Statement								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>131.7</b>	<b>142.5</b>	<b>145.0</b>	<b>152.7</b>	<b>172.4</b>	<b>192.8</b>	<b>213.8</b>	<b>232.3</b>
Change (%)	10.3	8.3	1.7	5.3	12.9	11.9	10.9	8.6
Total Expenditure	101.5	114.4	113.2	117.4	135.0	143.5	162.6	178.3
% of Sales	77.1	80.2	78.1	76.9	78.3	74.4	76.1	76.8
<b>EBITDA</b>	<b>30.1</b>	<b>28.2</b>	<b>31.8</b>	<b>35.2</b>	<b>37.4</b>	<b>49.4</b>	<b>51.2</b>	<b>53.9</b>
Margin (%)	22.9	19.8	21.9	23.1	21.7	25.6	23.9	23.2
Depreciation	6.0	7.0	7.1	7.1	7.2	7.6	7.8	7.6
<b>EBIT</b>	<b>24.2</b>	<b>21.2</b>	<b>24.7</b>	<b>28.1</b>	<b>30.2</b>	<b>41.8</b>	<b>43.4</b>	<b>46.3</b>
Int. and Finance Charges	1.9	3.4	1.6	1.3	1.3	0.5	0.4	0.2
Other Income - Rec.	2.0	1.1	0.5	2.2	1.9	1.8	1.9	2.0
<b>PBT before EO Expense</b>	<b>24.2</b>	<b>18.9</b>	<b>23.5</b>	<b>29.1</b>	<b>30.7</b>	<b>43.1</b>	<b>45.0</b>	<b>48.1</b>
EO Expense/(Income)	0.4	4.0	0.0	0.7	4.8	-0.4	0.0	0.0
<b>PBT after EO Expense</b>	<b>23.8</b>	<b>15.0</b>	<b>23.5</b>	<b>28.4</b>	<b>25.9</b>	<b>43.5</b>	<b>45.0</b>	<b>48.1</b>
Current Tax	5.3	3.2	1.1	5.1	5.9	9.6	10.3	11.1
Deferred Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	5.3	3.2	1.1	5.1	5.9	9.6	10.3	11.1
Tax Rate (%)	22.3	21.4	4.8	18.0	22.7	22.0	23.0	23.0
<b>Reported PAT</b>	<b>18.5</b>	<b>11.8</b>	<b>22.4</b>	<b>23.3</b>	<b>20.0</b>	<b>34.0</b>	<b>34.6</b>	<b>37.1</b>
Less: Minority Interest	0.0	0.0	2.1	0.8	0.4	0.3	0.1	0.1
PAT from Discontinued ooperations			1.0	22.5				
<b>Net Profit</b>	<b>18.5</b>	<b>11.8</b>	<b>21.3</b>	<b>44.9</b>	<b>19.6</b>	<b>33.7</b>	<b>34.5</b>	<b>37.0</b>
<b>PAT Adj for EO Items</b>	<b>18.8</b>	<b>15.0</b>	<b>20.3</b>	<b>22.1</b>	<b>22.9</b>	<b>33.4</b>	<b>34.5</b>	<b>37.0</b>
Change (%)	4.8	-20.0	34.8	8.9	3.9	45.4	3.5	7.1
Margin (%)	14.3	10.6	14.0	14.5	13.3	17.3	16.2	15.9

Balance Sheet								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total Reserves	102.8	102.7	128.9	169.0	174.1	209.9	237.3	267.1
<b>Net Worth</b>	<b>103.9</b>	<b>103.8</b>	<b>129.9</b>	<b>170.0</b>	<b>175.2</b>	<b>210.9</b>	<b>238.3</b>	<b>268.1</b>
Minority Interest	12.9	13.3	19.4	20.5	21.7	21.7	21.7	21.7
Deferred liabilities	-7.2	-6.4	-9.5	-9.4	-10.7	-10.7	-10.7	-10.7
Total Loans	74.1	73.2	40.5	45.8	17.0	16.0	16.0	16.0
<b>Capital Employed</b>	<b>183.7</b>	<b>183.9</b>	<b>180.2</b>	<b>226.9</b>	<b>203.2</b>	<b>238.0</b>	<b>265.4</b>	<b>295.2</b>
Gross Block	150.5	158.2	164.3	172.6	173.2	186.7	194.7	201.5
Less: Accum. Deprn.	28.9	35.8	42.9	50.1	57.3	64.7	72.5	80.4
<b>Net Fixed Assets</b>	<b>121.6</b>	<b>122.3</b>	<b>121.3</b>	<b>122.5</b>	<b>115.9</b>	<b>121.9</b>	<b>122.2</b>	<b>121.2</b>
Capital WIP	8.4	7.4	7.8	6.6	11.3	6.2	3.6	2.3
Investments	6.7	7.7	8.3	32.9	15.5	15.5	15.5	15.5
<b>Curr. Assets</b>	<b>88.4</b>	<b>91.0</b>	<b>90.6</b>	<b>105.0</b>	<b>104.2</b>	<b>153.2</b>	<b>191.0</b>	<b>230.6</b>
Inventory	26.9	27.9	32.4	37.2	34.1	47.8	58.0	64.8
Account Receivables	39.5	36.6	31.3	33.4	44.2	48.8	64.8	70.4
Cash and Bank Balance	5.5	9.6	8.9	11.1	5.7	36.5	48.1	75.3
Loans & Advances	16.5	16.8	18.1	23.3	20.2	20.2	20.2	20.2
<b>Curr. Liability &amp; Prov.</b>	<b>41.5</b>	<b>44.4</b>	<b>47.9</b>	<b>40.1</b>	<b>43.6</b>	<b>58.7</b>	<b>66.9</b>	<b>74.3</b>
Account Payables	40.1	42.0	44.6	36.4	40.0	55.1	63.2	70.7
Provisions	1.4	2.4	3.3	3.7	3.7	3.7	3.7	3.7
<b>Net Current Assets</b>	<b>46.9</b>	<b>46.5</b>	<b>42.7</b>	<b>64.9</b>	<b>60.5</b>	<b>94.5</b>	<b>124.1</b>	<b>156.3</b>
<b>Appl. of Funds</b>	<b>183.7</b>	<b>183.9</b>	<b>180.2</b>	<b>226.9</b>	<b>203.2</b>	<b>238.0</b>	<b>265.4</b>	<b>295.2</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>EPS</b>	<b>18.4</b>	<b>14.7</b>	<b>19.8</b>	<b>21.6</b>	<b>22.4</b>	<b>32.6</b>	<b>33.7</b>	<b>36.1</b>
Cash EPS	23.9	18.3	27.8	50.8	26.3	40.3	41.3	43.6
BV/Share	101.5	101.4	126.9	166.1	171.1	206.0	232.8	261.9
DPS	3.6	3.6	3.6	4.6	6.0	5.4	5.8	5.8
Payout (%)	19.6	24.5	18.2	21.3	26.8	16.6	17.2	16.1
<b>Valuation (x)</b>								
P/E	38.9	48.6	36.0	33.1	31.9	21.9	21.2	19.8
Cash P/E	29.9	39.0	25.7	14.1	27.2	17.7	17.3	16.4
P/BV	7.0	7.0	5.6	4.3	4.2	3.5	3.1	2.7
EV/Sales	6.0	5.5	5.2	4.8	4.2	3.6	3.2	2.8
EV/EBITDA	26.3	27.9	23.7	20.8	19.4	14.1	13.4	12.2
Dividend Yield (%)	0.5	0.5	0.5	0.6	0.8	0.8	0.8	0.8
<b>Return Ratios (%)</b>								
RoE	19.3	11.3	17.4	14.7	13.3	17.3	15.4	14.6
RoCE	12.8	9.9	13.8	12.9	12.1	16.2	14.5	13.8
RoIC	14.1	10.3	15.0	13.9	13.4	18.6	17.7	17.8
<b>Working Capital Ratios</b>								
Asset Turnover (x)	0.7	0.8	0.8	0.7	0.8	0.8	0.8	0.8
Fixed Asset Turnover (x)	1.4	1.2	1.2	1.3	1.4	1.6	1.8	1.9
Debtor (Days)	99	97	82	77	82	88	97	106
Inventory (Days)	70	70	76	83	76	78	90	96
Working Capital T/O (Days)	115	94	85	129	116	110	130	127
<b>Leverage Ratio (x)</b>								
Net Debt/Equity	0.8	0.7	0.3	0.2	0.1	-0.1	-0.1	-0.2

### Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Oper. Profit/(Loss) bef.Tax	30.1	28.2	31.8	35.2	37.4	49.4	51.2	53.9
Interest/Dividends Recd.	2.0	1.1	0.5	2.2	1.9	1.8	1.9	2.0
Direct Taxes Paid	-5.3	-3.2	-1.1	-5.1	-5.9	-9.6	-10.3	-11.1
(Inc)/Dec in WC	-3.1	4.6	3.0	-20.0	-1.0	-3.2	-18.0	-5.0
<b>CF from Operations</b>	<b>23.7</b>	<b>30.7</b>	<b>34.1</b>	<b>12.4</b>	<b>32.4</b>	<b>38.4</b>	<b>24.7</b>	<b>39.9</b>
EO Expense / (Income)	0.4	4.0	0.0	0.7	4.8	-0.4	0.0	0.0
Others	-10.5	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
<b>CF from Operating incl EO Exp.</b>	<b>12.8</b>	<b>25.1</b>	<b>34.1</b>	<b>11.7</b>	<b>27.6</b>	<b>38.8</b>	<b>24.7</b>	<b>39.9</b>
(inc)/dec in FA	-55.9	-6.7	-6.5	-7.1	-5.3	-8.4	-5.5	-5.3
<b>Free Cash Flow</b>	<b>-43.1</b>	<b>18.4</b>	<b>27.6</b>	<b>4.6</b>	<b>22.3</b>	<b>30.4</b>	<b>19.2</b>	<b>34.6</b>
(Pur)/Sale of Investments	-2.0	-0.9	-0.7	-24.6	17.4	0.0	0.0	0.0
Others	15.5	-2.5	0.0	0.0	0.0	0.0	0.0	0.0
<b>CF from Investments</b>	<b>-42.4</b>	<b>-10.1</b>	<b>-7.2</b>	<b>-31.7</b>	<b>12.1</b>	<b>-8.4</b>	<b>-5.5</b>	<b>-5.3</b>
Inc/(Dec) in Debt	31.7	-0.4	-26.8	6.5	-27.6	-1.0	0.0	0.0
Interest Paid	-1.9	-3.4	-1.6	-1.3	-1.3	-0.5	-0.4	-0.2
Dividend Paid	-3.7	-4.3	-4.4	-5.7	-7.4	-6.7	-7.2	-7.2
Others	-7.3	-2.8	5.1	22.6	-8.7	8.5	-0.1	-0.1
<b>CF from Fin. Activity</b>	<b>18.8</b>	<b>-10.9</b>	<b>-27.7</b>	<b>22.2</b>	<b>-45.0</b>	<b>0.3</b>	<b>-7.6</b>	<b>-7.4</b>
<b>Inc/Dec of Cash</b>	<b>-10.7</b>	<b>4.0</b>	<b>-0.8</b>	<b>2.2</b>	<b>-5.3</b>	<b>30.8</b>	<b>11.6</b>	<b>27.2</b>
Add: Beginning Balance	15.9	7.8	11.8	11.0	13.2	7.9	38.6	50.2
<b>Closing Balance</b>	<b>7.8</b>	<b>11.8</b>	<b>11.0</b>	<b>13.2</b>	<b>7.9</b>	<b>38.6</b>	<b>50.2</b>	<b>77.4</b>
Cash and bank balances	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1
<b>Total Cash &amp; Cash Eq</b>	<b>5.5</b>	<b>9.6</b>	<b>8.9</b>	<b>11.1</b>	<b>5.7</b>	<b>36.5</b>	<b>48.1</b>	<b>75.3</b>

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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