

ZYDUS LIFESCIENCES

COMPANY UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	888
12 month price target (INR)	840
52 Week High/Low	1,324/855
Market cap (INR bn/USD bn)	894/10.2
Free float (%)	25.0
Avg. daily value traded (INR mn)	1,220.9

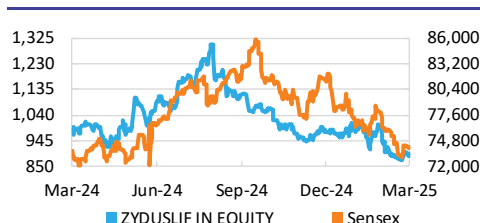
SHAREHOLDING PATTERN

	Dec-24	Sep-24	Jun-24
Promoter	74.98%	74.98%	74.98%
FII	7.53%	7.52%	5.59%
DII	10.65%	10.65%	12.64%
Pledge	0%	0%	0%

FINANCIALS

	(INR mn)			
Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	1,95,474	2,32,254	2,49,330	2,48,584
EBITDA	53,843	67,368	66,084	60,903
Adjusted profit	38,595	45,862	46,283	42,067
Diluted EPS (INR)	38.4	45.6	46.0	41.8
EPS growth (%)	96.9	18.8	0.9	(9.1)
RoAE (%)	20.7	21.1	18.0	14.3
P/E (x)	23.2	19.5	19.3	21.2
EV/EBITDA (x)	16.5	12.8	12.5	12.9
Dividend yield (%)	0.7	0.8	0.8	0.7

PRICE PERFORMANCE



Amplitude deal: subpar synergies, scale

ZYDUSLIF is acquiring France-based orthopaedics player Amplitude Surgical for EUR300mn in two tranches, paying a premium of ~81% to its current price. While the med-tech industry is in a sweet spot with tailwinds aiding its growth, we argue this bolt-on for ZYDUSLIF is a long-term play with amorphous synergies as of now.

We reckon the deal would be EPS-dilutive (by 1–3%) in FY26E/27E. At 17x FY24 EV/EBITDA, the deal is expensive in our view given the target's performance and current positioning. We are not losing sight of ZYDUSLIF's effort to arrest the gRevlimid fall, but argue the deal comes at a considerable cost. Valuing the stock at 20x FY27E EPS (earlier 24x), we maintain 'REDUCE' with a revised TP of INR840 (earlier INR1,003).

A toehold in USD510bn global medical devices market

ZYDUSLIF is acquiring a controlling stake (85.6% for EUR256.8mn) from PAI Partners and management on Euronext listed Amplitude Surgical at price of EUR6.25/share (~81% premium to market price). It plans to acquire the balance 14.4% minority stake for EUR43.2mn and delist the company. This EUR300mn transaction would be funded via a mix of cash and external financing, and would be completed by Jun-25 (subject to regulatory approvals). The attractive part of this deal for ZYDUSLIF would be: i) a foray in the USD510bn global med-tech market; ii) IP-driven and backward-integrated product portfolio; and iii) an opportunity to build a med-tech business in India. ZYDUSLIF believes Indian medical devices market is turning attractive due to regulatory changes.

With little synergies, Amplitude may need cost-optimisation

While this capital allocation helps ZYDUSLIF diversify operations away from pharma, it comes with challenges. Amplitude has delivered EUR106mn in revenue despite being in operation since 1997, indicating it is yet to attain a critical mass in the global USD510bn industry. While EBITDA margin (21–24%) is strong, Amplitude has weak post-tax profitability owing to depreciation and interest expenses. The financial performance (RoE/RoCE/FCF) has been weak, which calls for either cost-optimisation or accelerating sales growth—either of which we reckon would take several years. We also believe that the Zydus + Amplitude deal has very little synergies.

Acquisition not enthusing; maintain 'REDUCE'

We reckon Amplitude can add 4%/5% to ZYDUSLIF's revenue/EBITDA in FY26E/27E, assuming 6% revenue growth and 23.5% EBITDA margin for Amplitude. Accordingly, we find this acquisition is EPS-dilutive (–1% to –3% for FY26E/27E EPS) given ZYDUSLIF would partially fund this deal via external financing. At 17x EV/EBITDA or 2.8x P/S, not to mention a weak financial profile, the deal looks expensive. Note that Stryker, a very large global med-tech player with superior financials, trades at a 1-year forward EV/EBITDA of 18x. We think Amplitude does not provide the magnitude necessary to address the revenue/profitability loss that would occur with entry of competition in Lenalidomide. Retain 'REDUCE' with a revised TP of INR840 (earlier INR1,003).

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	1,95,474	2,32,254	2,49,330	2,48,584
Gross profit	1,33,192	1,66,766	1,74,413	1,70,280
Employee costs	31,376	37,511	40,400	42,259
R&D cost	13,096	19,617	21,803	21,130
Other expenses	34,877	42,270	46,126	45,988
EBITDA	53,843	67,368	66,084	60,903
Depreciation	7,641	8,956	9,541	10,166
Less: Interest expense	812	1,193	1,200	1,200
Add: Other income	2,841	2,589	3,000	3,200
Profit before tax	48,231	59,808	58,343	52,737
Prov for tax	9,775	14,002	13,099	11,910
Less: Exceptional item	88	0	0	0
Reported profit	38,595	45,862	46,283	42,067
Adjusted profit	38,595	45,862	46,283	42,067
Diluted shares o/s	1,006	1,006	1,006	1,006
Adjusted diluted EPS	38.4	45.6	46.0	41.8
DPS (INR)	6.2	6.8	6.9	6.3
Tax rate (%)	20.3	23.4	22.5	22.6

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Gross margin	68.1	71.8	70.0	68.5
R&D as a % of sales	6.7	8.4	8.7	8.5
Net Debt/EBITDA	(0.3)	(0.7)	(1.2)	(2.0)
EBITDA margin (%)	27.5	29.0	26.5	24.5
Net profit margin (%)	19.7	19.7	18.6	16.9
Revenue growth (% YoY)	13.4	18.8	7.4	(0.3)
EBITDA growth (% YoY)	39.5	25.1	(1.9)	(7.8)
Adj. profit growth (%)	96.9	18.8	0.9	(9.1)

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	6.2
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	83.0	84.0	82.0	82.0
India formulations (%)	9.3	9.0	10.8	10.9
US generics (USD mn)	1,049.0	1,321.9	1,360.7	1,186.0
Exports growth (%)	17.4	25.7	5.2	(7.9)
Wellness growth (%)	3.0	14.1	10.0	10.0
API growth (%)	3.4	2.6	5.0	9.0
Capex (USD mn)	109.2	134.3	127.0	120.1

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	23.2	19.5	19.3	21.2
Price/BV (x)	4.5	3.8	3.2	2.9
EV/EBITDA (x)	16.5	12.8	12.5	12.9
Dividend yield (%)	0.7	0.8	0.8	0.7

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	1,006	1,006	1,006	1,006
Reserves	1,97,289	2,36,271	2,75,612	3,11,369
Shareholders funds	1,98,295	2,37,277	2,76,618	3,12,375
Minority interest	22,721	23,494	23,654	23,814
Borrowings	7,686	6,686	5,686	4,686
Trade payables	21,267	25,453	27,324	27,242
Other liabs & prov	12,489	18,011	19,325	19,268
Total liabilities	2,76,366	3,26,518	3,69,332	4,04,061
Net block	1,36,803	1,39,330	1,40,405	1,40,285
Intangible assets	0	0	0	0
Capital WIP	11,115	10,915	10,715	10,515
Total fixed assets	1,47,918	1,50,245	1,51,120	1,50,800
Non current inv	9,680	10,665	11,143	11,122
Cash/cash equivalent	13,576	41,024	76,064	1,12,701
Sundry debtors	52,202	62,359	66,943	66,743
Loans & advances	18,571	21,502	21,027	20,469
Other assets	34,419	40,724	43,035	42,225
Total assets	2,76,366	3,26,518	3,69,332	4,04,061

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	38,595	45,862	46,283	42,067
Add: Depreciation	7,641	8,956	9,541	10,166
Interest (net of tax)	0	0	0	0
Others	(6,017)	3,411	3,713	1,836
Less: Changes in WC	(7,940)	(12,276)	(5,024)	928
Operating cash flow	32,279	45,953	54,514	54,997
Less: Capex	(9,066)	(11,283)	(10,416)	(9,846)
Free cash flow	23,213	34,670	44,097	45,151

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	20.7	21.1	18.0	14.3
RoCE (%)	22.4	24.6	20.8	16.7
Inventory days	201	209	204	199
Receivable days	90	90	95	98
Payable days	125	130	129	127
Working cap (% sales)	30.4	30.2	29.1	28.7
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
Interest coverage (x)	56.9	49.0	47.1	42.3

Valuation Drivers

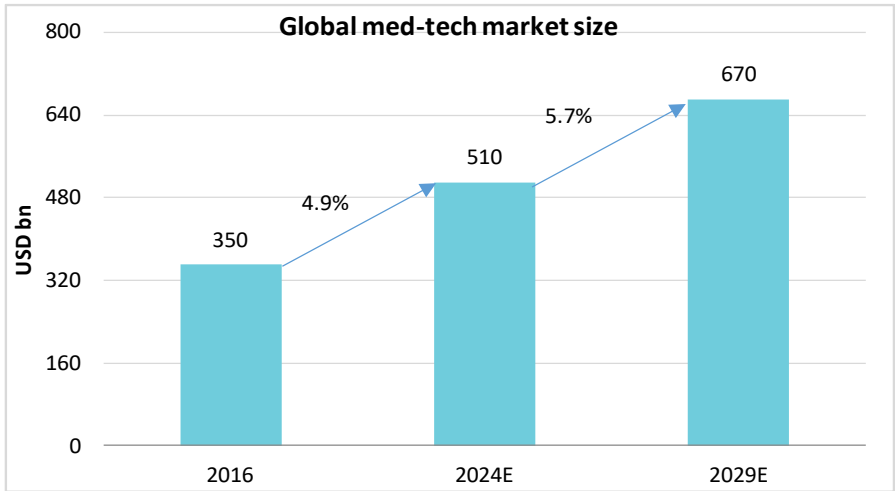
Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	96.9	18.8	0.9	(9.1)
RoE (%)	20.7	21.1	18.0	14.3
EBITDA growth (%)	39.5	25.1	(1.9)	(7.8)
Payout ratio (%)	16.1	15.0	15.0	15.0

Med-tech market projected to reach USD670bn globally by CY29E

Global med-tech: The global market is USD510bn, which is projected to touch USD670bn in CY30E. Currently, the medical devices market is dominated by top five OEMs, which command more than 50% of the market. That said, emerging challengers can gain ground via innovative technology, cost efficiency and a service-oriented approach. The regulatory landscape promotes innovation and quality, which is evident by the EU’s new Medical Device Regulations (MDR) and the USFDA’s Breakthrough Devices program.

Domestic med-tech: The Indian med-tech sector is expected to reach USD50bn by CY30E (from USD12bn in FY24E). India is currently heavily import-dependent with 80–85% of medical devices sourced via imports. The Government of India has also announced a PLI scheme for promoting domestic manufacturing of medical devices with a total outlay of USD400mn. Even on the regulatory front, the The Central Drugs Standard Control Organisation (CDSCO) is picking up on the best global practices.

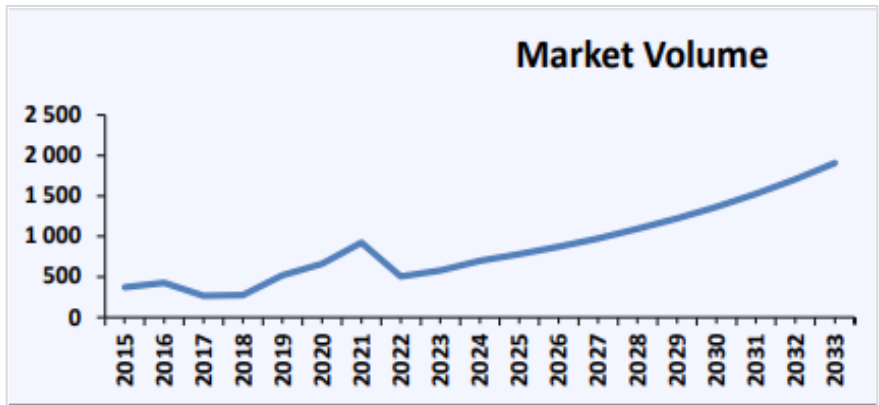
Exhibit 1: Global med-tech market size to touch ~USD670bn



Source: Company

Global orthopaedics market: The orthopaedics segment is a large and attractive market within global med-tech. This segment is currently USD45mn and likely to soar to USD60bn by CY29E. Within this, ~31% of the market is dominated by knee and hip products. Robotic-assisted surgery is becoming a competitive necessity leading to improved precision and patient outcomes. Due to this, major players are investing heavily in next-generation surgical techniques and robotic solutions.

Exhibit 2: Attractive market for orthopaedic robotic surgical systems

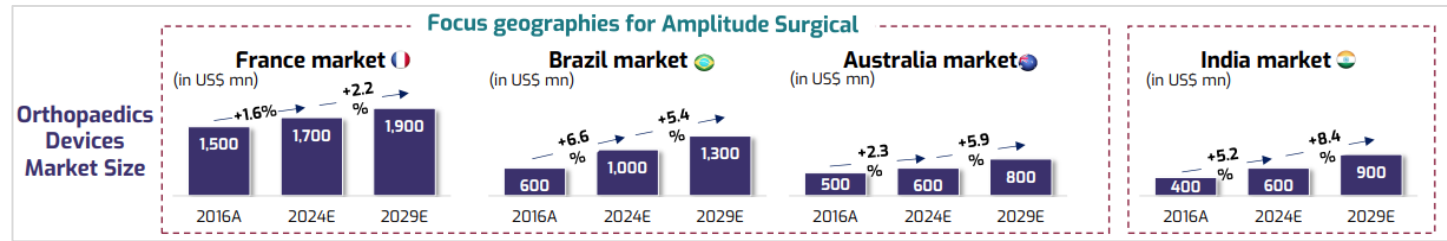


Source: Company, Nuvama Research

Amplitude: France-based orthopaedics player with global reach

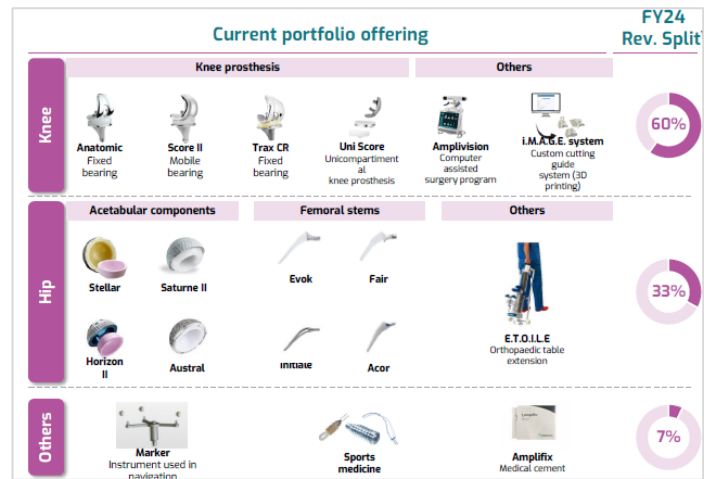
Amplitude Surgical, founded in 1997, is a France-based orthopaedic products player, that serves >25 countries, has 30 active patents and 420+ employees. It is ranked #2 in France and #6 in both Brazil and Europe for hips and knees. It derived 60% of its FY24 revenue from the knee portfolio, 33% from the hip portfolio and the balance ~7% from other products.

Exhibit 3: Amplitude Surgical’s focus geographies and expected growth dynamics over CY24–29E



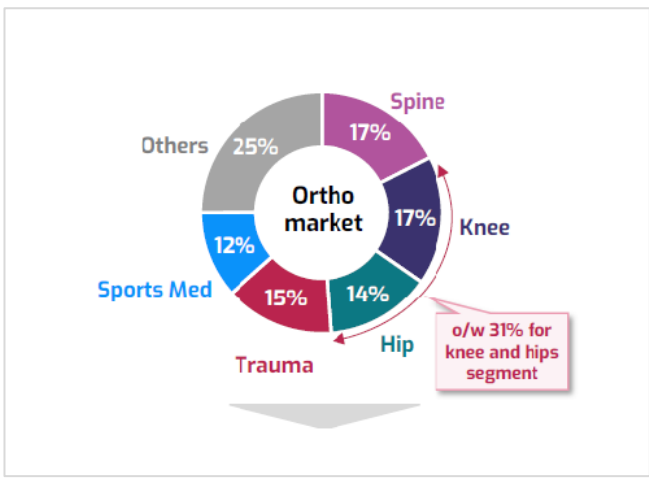
Source: Company

Exhibit 4: Amplitude: Product and revenue contribution



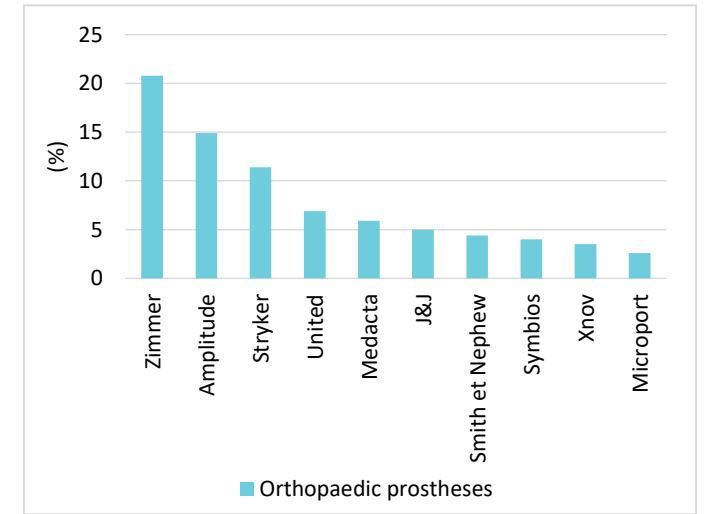
Source: Nuvama Research, Company

Exhibit 5: Revenue mix by segment



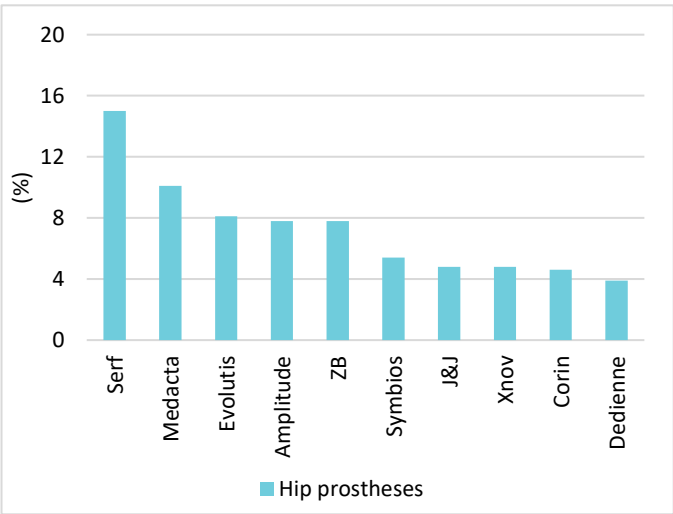
Source: Nuvama Research, Company

Exhibit 6: Amplitude’s MS in French orthopaedic prostheses...



Source: Nuvama Research

Exhibit 7: ...and in hip prostheses



Source: Nuvama Research

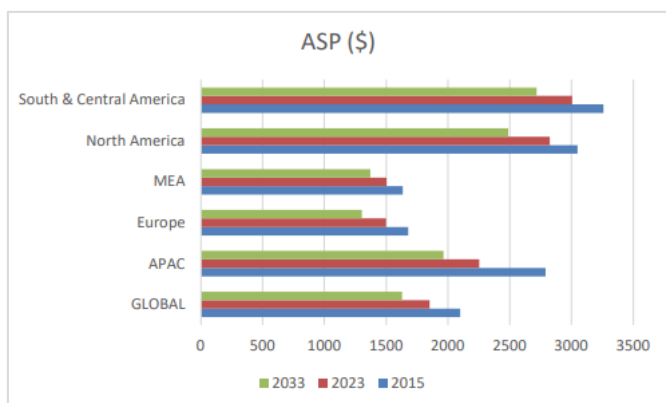
Management believes their right-to-win in this lies in:

- **Product portfolio:** Amplitude's R&D driven product portfolio is compliant with highest quality of standards and regulations. The company also has an ongoing product development pipeline and computer-assisted program.
- **Dedicate research capabilities:** Amplitude has dedicated R&D personnel working in close partnership to develop technologically advanced products.
- In-house manufacturing and dedicated marketing team with strong product knowledge and medical education.
- ZYDUSLIF leadership and own commercial abilities.

Medtech products: Volume growth critical amid annual price erosion

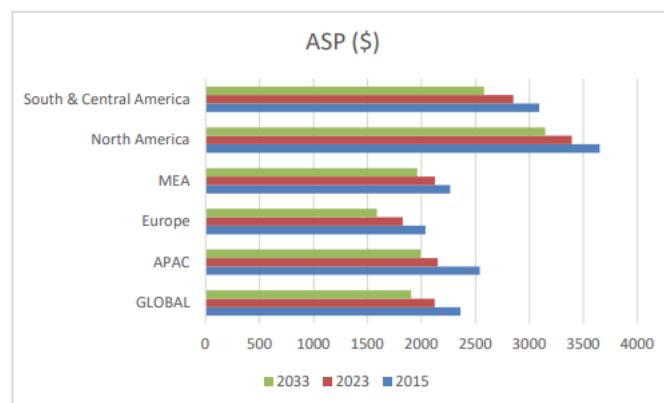
As per Amplitude's data, mature orthopaedic products suffer 1–2% price erosion per year, indicating volume growth is critical for growth. This price erosion trend is expected to persist as per the same data provided by the company. In France, which is Amplitude's core market, volume growth in hip/knee segments is expected to be 4.2%/3.6% over the 2023–33 period.

Exhibit 8: ASP evolution – Hips



Source: Nuvama Research

Exhibit 9: ASP evolution – Knees



Source: Nuvama Research

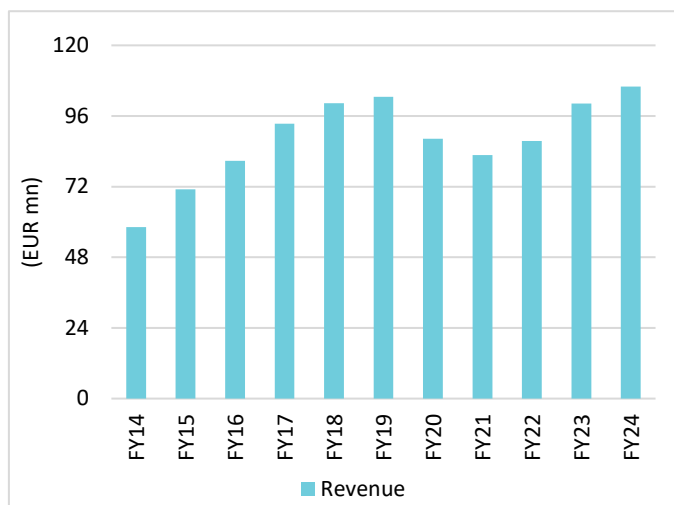
Amplitude has weak financials, may lead to minor EPS dilution

Amplitude's revenue/EBITDA increased at CAGRs of 6% and 5%, respectively, over FY21–24 (June-ending). It has also consistently maintained EBITDA margin in the 22–24% range. While the operating performance has been strong, the overall performance has not been attractive. The company's operates at a very weak PAT margin, which calls for an improvement.

Amplitude owes EUR90mn of net debt and its interest coverage ratio is ~1.3x. The RoCE has been weak, albeit it improved from 3.6% in FY22 to 6% in FY24. The business has also not delivered positive FCF in many years.

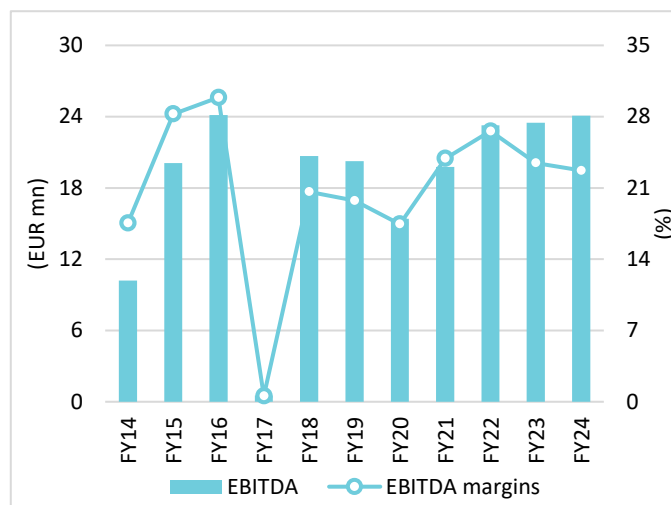
According to our assumption, with a 6% revenue CAGR and 23.5% margin, Amplitude can add 4%/5% to ZYDUSLIF's revenue and EBITDA. As the company expects to use external sources to fund this deal, we think its consolidated EPS would dip by 1–3% in FY26E/27E.

Exhibit 10: Amplitude's revenue is reaching near FY19 level



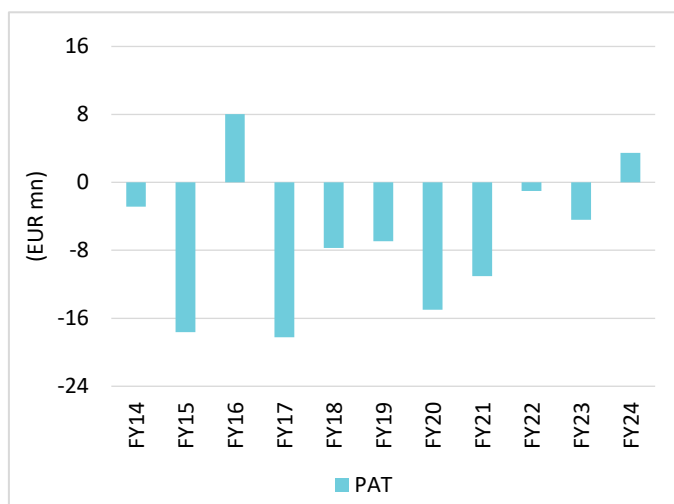
Source: Nuvama Research, Bloomberg

Exhibit 11: Margins have been range-bound within 22–24%



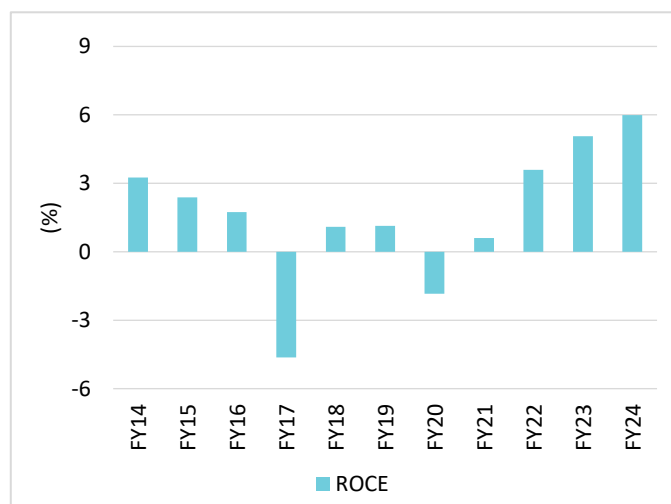
Source: Nuvama Research, Bloomberg

Exhibit 12: Profitability has been volatile and weak



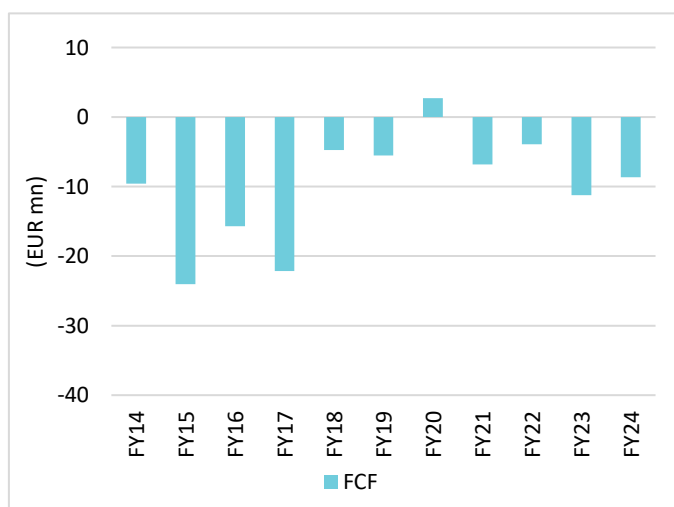
Source: Nuvama Research, Bloomberg

Exhibit 13: RoCE improving in recent years



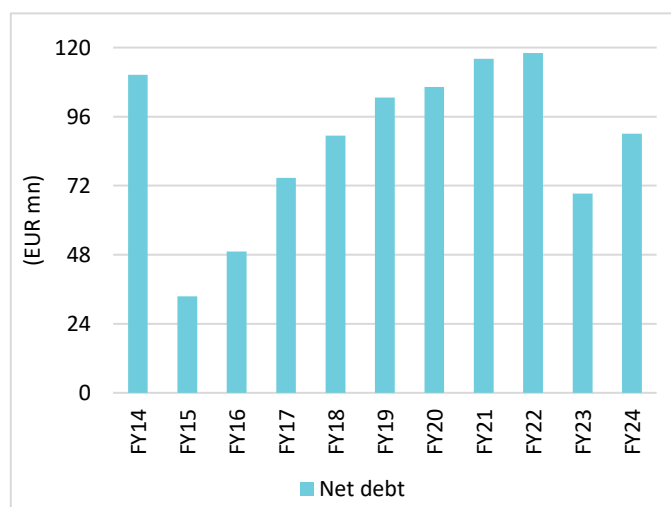
Source: Nuvama Research, Bloomberg

Exhibit 14: Hardly any free cash flow



Source: Nuvama Research, Bloomberg

Exhibit 15: Amplitude's net debt rose in FY24



Source: Nuvama Research, Bloomberg

Exhibit 16: ZYDUSLIF's *pro forma* financials' snapshot as per our estimates (INR mn)

		FY25E	FY26E	FY27E
Revenue	Pre-acquisition	2,32,254	2,49,330	2,48,584
	Post- acquisition	2,32,254	2,60,408	2,60,580
	Accretion/dilution	0%	4%	5%
EBITDA	Pre- acquisition	67,368	66,084	60,903
	Post- acquisition	67,368	68,688	63,722
	Accretion/dilution	0%	4%	5%
EBITDA margin	Pre- acquisition	29.0%	26.5%	24.5%
	Post- acquisition	29.0%	26.4%	24.5%
	Accretion/dilution	0	-13	-5
PAT	Pre- acquisition	46,635	46,443	42,227
	Post- acquisition	46,635	46,022	41,944
	Accretion/dilution	0%	-1%	-1%

Source: Nuvama Research

Company Description

Zydu Life (ZYDUSLIF) is a well-diversified pharma company with a presence in more than 100 countries. It is among the few Indian players with a presence in Consumer and Animal health businesses.

ZYDUSLIF ranks among the top 10 companies in the Indian pharma market, and the India branded business contributes more than 35% to its sales. US contributes 40% of its revenue and is among the top 15 generic companies in the US in terms of prescriptions.

ZYDUSLIF's recent success in mesalamines has given a good momentum to its US business. The company's focus is now on transdermal patches, vaccines, biosimilars and specialty. Acquisition has been core to its strategy in recent times, primarily aimed at strengthening its presence in these markets—Spain, France, Brazil, Nesher Pharma in US, etc. To its credit, ZYDUSLIF also has joint ventures with leading global pharma players such as Abbott, Bayer, Hospira and Takeda.

Investment Theme

We think Zydu has more steam left in coming years due to gMyrbetriq and gVascepa launches, US acquisition of Zokinvy, an ultra-rare condition called Progeria, growth of new 505(b)(2) products (Zituvio and Zituvimet), peptide launches starting in FY26E and GLP-1s possibly thereafter, growth expected in China, Europe and EM. Zydu also has FTF on diabetes indication of Semaglutide (Ozempic, USD10bn drug in 2023), which can be a very large opportunity near the expiry ('122 patent in 2026 and '343 patent in 2031). gCabometyx can be an important opportunity after Aug-26.

Key Risks

- Failure to gain market share in key products or competition
- Higher price erosion
- USFDA inspection
- Delay in launches of key products

Additional Data

Management

Chairman	Pankaj R. Patel
Managing Director	Dr. Sharvil P. Patel
Executive Director	Ganesh Nayak
CFO	Nitin D. Parekh
Auditor	Deloitte Haskins and Sells LLP

Holdings – Top 10*

	% Holding		% Holding
LIC	3.53	Black Rock	0.85
ICICI Pru AMC	1.82	Norges Bank	0.48
Kotak AMC	1.30	Quant	0.37
PPFAS AMC	1.14	Nippon Life	0.37
Vanguard	1.02	Axis AMC	0.28

*Latest public data

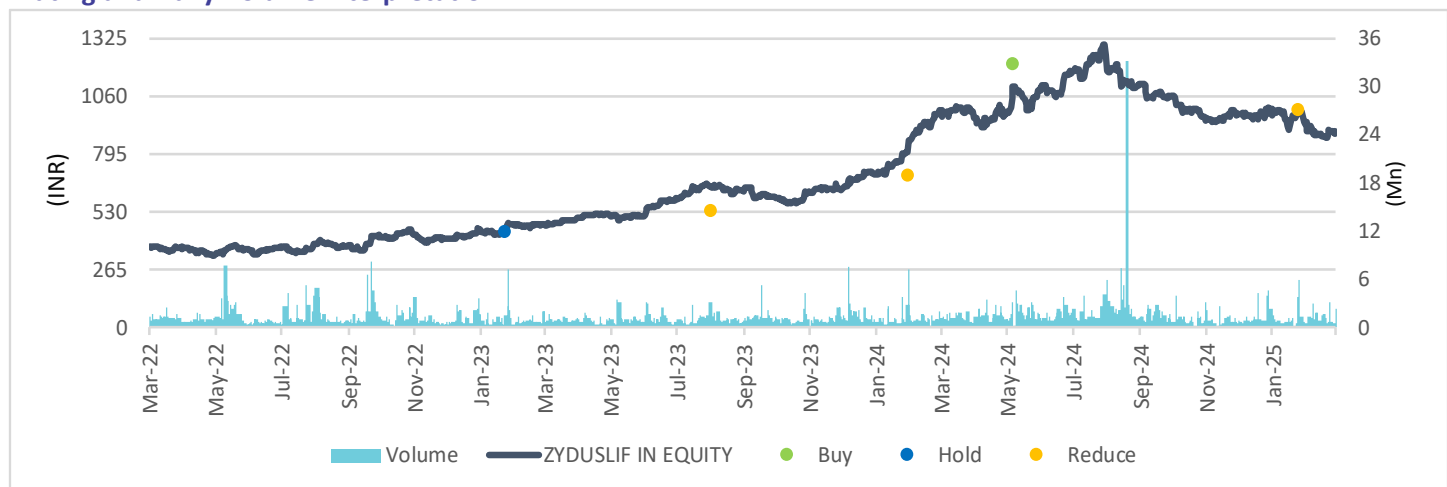
Recent Company Research

Date	Title	Price	Reco
05-Feb-25	US growth offsets India weakness; <i>Result Update</i>	977	Reduce
12-Nov-24	Zydus Lifesciences (ZYDUSLIF IN, INR 950; <i>Result Update</i>	949	Buy
10-Aug-24	Another great quarter with high margins ; <i>Result Update</i>	1301	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
03-Mar-25	Jubilant Pharmova	Aims to double revenue, treble EBITDA by; <i>Company Update</i>
20-Feb-25	Pharmaceuticals	Chronic strong; gRevlimid to fade soon; <i>Sector Update</i>
13-Feb-25	Natco Pharma	All-round miss; upside constrained; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	234
Hold	<15% and >-5%	61
Reduce	<-5%	23

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