

# ZYDUS LIFESCIENCES

## COMPANY UPDATE

### KEY DATA

<b>Rating</b>	<b>REDUCE</b>
Sector relative	Underperformer
Price (INR)	927
12 month price target (INR)	840
52 Week High/Low	1,324/795
Market cap (INR bn/USD bn)	932/10.9
Free float (%)	25.0
Avg. daily value traded (INR mn)	1,342.9

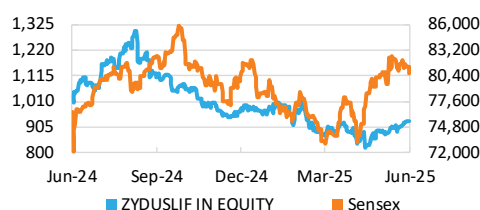
### SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	74.99%	74.98%	74.98%
FII	7.32%	7.53%	7.52%
DII	11.01%	10.65%	10.65%
Pledge	0%	0%	0%

### FINANCIALS

	(INR mn)			
Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	1,95,474	2,32,415	2,52,119	2,66,089
EBITDA	53,843	70,585	68,819	66,522
Adjusted profit	38,595	45,255	44,799	42,800
Diluted EPS (INR)	38.4	45.0	44.5	42.5
EPS growth (%)	96.9	17.3	(1.0)	(4.5)
RoAE (%)	20.7	20.7	17.3	14.5
P/E (x)	23.0	19.6	19.8	20.8
EV/EBITDA (x)	16.4	11.9	11.8	11.7
Dividend yield (%)	0.7	0.8	0.8	0.7

### PRICE PERFORMANCE



## Agenus: strategic spend, long-term play

ZYDUSLIF is foraying into the US biologics CDMO segment by acquiring two biologics sites (11,200L capacity) in the US from Agenus. An upfront amount of USD75mn will be paid and the company has also agreed to contingent payments of USD50mn over the next three years.

Though the deal appears expensive, we think the future BOT/BAL manufacturing orders, first negotiation rights on other pipeline assets and the industry demand outlook, make the deal attractive. We also observe growing interest on part of Indian companies in the CDMO space and fresh investment of ~USD420mn in this space over the past two years. As for Zydus, we do not reckon any immediate P&L impact; retain 'REDUCE' with an unchanged target price of INR840.

### Zydus: exclusive CMO to Agenus for Botensilimab and Balstilimab

Zydus is acquiring two biologics manufacturing facilities (11,200L capacity) in Emeryville and Berkeley from US-based Agenus for USD75mn upfront. Under the deal, Zydus will become the exclusive contract manufacturer for Agenus' biologics Botensilimab and Balstilimab. A USD50mn contingent payment by Zydus will also be triggered by production orders for these drugs. Zydus also gains first negotiation rights for future Agenus pipeline products (clinical or commercial batches)—an attractive aspect of the deal. Furthermore, Zydus receives an exclusive license to manufacture and commercialise BOT/BAL in India and Sri Lanka, in return for a 5% royalty on net sales in these markets.

### Building of footprint in US appreciable; deal slightly expensive

With this acquisition, Zydus will enter the high-growth biologics CDMO space, gaining immediate access to advanced US-based biologics manufacturing infrastructure. This comes amid rising demand for biologics manufacturing in the US, as more innovators seek local partners. Recently, Syngene [acquired](#) 30,000L of biologics capacity from Emergent for USD50mn (USD 1,667/L). In comparison, Zydus is paying USD6,696/L—~4x higher. The premium likely reflects assured future orders for Zydus and past [compliance](#) issues at the Syngene-acquired site. Zydus' US subsidiary Zynext Ventures US is also acquiring ~2.13mn shares (5.9% stake) in Agenus at a purchase price of USD7.50/share (total USD16mn).

### Step in right direction from long-term capital allocation view

The deal—even though expensive—appears to be a step in the right direction, as it assures future manufacturing business. This opportunity however would possibly play out after FY27, when Agenus' BOT/BAL is approved. These two assets are in late stage clinical trials and there is [no possibility](#) of an accelerated approval. From a long-term capital allocation perspective, the deal looks attractive as biologics CDMO is a better business to invest considering the biologics industry outlook and US growth tailwinds in US manufacturing. For Zydus, we do not forecast any P&L impact at this time, but any near-term manufacturing deal (besides Agenus) may play out positively; maintain 'REDUCE' with an unchanged target price of INR840.

## Financial Statements

### Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	1,95,474	2,32,415	2,52,119	2,66,089
Gross profit	1,33,192	1,69,035	1,76,478	1,82,271
Employee costs	31,376	36,806	40,848	45,235
R&D cost	13,096	18,555	20,170	21,287
Other expenses	34,877	43,089	46,642	49,226
EBITDA	53,843	70,585	68,819	66,522
Depreciation	7,641	9,158	9,952	10,599
Less: Interest expense	812	1,659	2,000	2,400
Add: Other income	2,841	2,695	2,620	2,750
Profit before tax	48,231	62,463	59,486	56,274
Prov for tax	9,775	14,119	14,167	13,553
Less: Exceptional item	88	(2,196)	0	0
Reported profit	38,595	45,255	44,799	42,800
Adjusted profit	38,595	45,255	44,799	42,800
Diluted shares o/s	1,006	1,006	1,006	1,006
Adjusted diluted EPS	38.4	45.0	44.5	42.5
DPS (INR)	6.2	6.7	6.7	6.4
Tax rate (%)	20.3	22.6	23.8	24.1

### Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Gross margin	68.1	72.7	70.0	68.5
R&D as a % of sales	6.7	8.0	8.0	8.0
Net Debt/EBITDA	(0.3)	(0.9)	(1.4)	(2.0)
EBITDA margin (%)	27.5	30.4	27.3	25.0
Net profit margin (%)	19.7	19.5	17.8	16.1
Revenue growth (% YoY)	13.4	18.9	8.5	5.5
EBITDA growth (% YoY)	39.5	31.1	(2.5)	(3.3)
Adj. profit growth (%)	96.9	17.3	(1.0)	(4.5)

### Assumptions (%)

Year to March	FY24A	FY25A	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 (%)	9.7	10.1	10.0	10.9
US generics (USD mn)	1,049.0	1,307.0	1,299.7	1,260.0
Exports growth (%)	17.2	24.5	7.9	2.1
Wellness growth (%)	3.0	16.5	10.0	10.0
API growth (%)	3.4	(1.0)	5.0	9.0
Capex (USD mn)	109.2	203.9	156.3	137.1

### Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	23.0	19.6	19.8	20.8
Price/BV (x)	4.5	3.7	3.2	2.8
EV/EBITDA (x)	16.4	11.9	11.8	11.7
Dividend yield (%)	0.7	0.8	0.8	0.7

Source: Company and Nuvama estimates

### Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	1,006	1,006	1,006	1,006
Reserves	1,97,289	2,38,525	2,76,604	3,12,984
Shareholders funds	1,98,295	2,39,531	2,77,610	3,13,990
Minority interest	22,721	24,053	25,373	26,693
Borrowings	7,686	31,695	30,695	28,695
Trade payables	21,267	23,058	24,867	26,244
Other liabs & prov	12,489	17,351	17,008	17,944
Total liabilities	2,76,366	3,48,579	3,92,522	4,31,458
Net block	1,36,803	1,45,077	1,48,140	1,48,986
Intangible assets	0	0	0	0
Capital WIP	11,115	13,179	12,979	12,779
Total fixed assets	1,47,918	1,58,256	1,61,119	1,61,765
Non current inv	9,680	15,567	18,490	18,881
Cash/cash equivalent	13,576	78,079	1,08,776	1,42,407
Sundry debtors	52,202	40,247	42,826	44,470
Loans & advances	18,571	16,990	19,176	20,195
Other assets	34,419	39,440	42,135	43,741
Total assets	2,76,366	3,48,579	3,92,522	4,31,458

### Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	38,595	45,255	44,799	42,800
Add: Depreciation	7,641	9,158	9,952	10,599
Interest (net of tax)	0	0	0	0
Others	(6,305)	4,259	4,022	3,888
Less: Changes in WC	(7,968)	9,095	(3,465)	(1,872)
Operating cash flow	31,963	67,767	55,309	55,415
Less: Capex	(9,066)	(17,126)	(12,816)	(11,244)
Free cash flow	22,897	50,641	42,493	44,171

### Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	20.7	20.7	17.3	14.5
RoCE (%)	22.4	24.5	19.6	16.7
Inventory days	201	213	197	187
Receivable days	90	73	60	60
Payable days	125	128	116	111
Working cap (% sales)	30.4	16.3	17.0	16.4
Gross debt/equity (x)	0	0.1	0.1	0.1
Net debt/equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
Interest coverage (x)	56.9	37.0	29.4	23.3

### Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	96.9	17.3	(1.0)	(4.5)
RoE (%)	20.7	20.7	17.3	14.5
EBITDA growth (%)	39.5	31.1	(2.5)	(3.3)
Payout ratio (%)	16.1	15.0	15.0	15.0

## About Emeryville and Berkeley sites

- **Emeryville:** This facility has end-to-end clinical, development and commercial production (upstream, downstream, and packaging), warehousing and distribution capacity. Furthermore, this site also has analytical, formulation development, and stability testing capability. The site has a total capacity of 8,600L and includes 1x100L, 1x500L, 4x2,000L single-use bioreactors. Agenesis has built the facility and made capital upgrade investments totalling >USD100mn here since 2021.

Exhibit 1: Emeryville facility



Source: Company, Nuvama Research

Exhibit 2: Capabilities of Emeryville facility

### Annual cGMP Drug Substance Production Capacity = 20-40 Batches\*

- cGMP upstream manufacturing: 1 x 100L, 1 x 500L, and 4 x 2000L SUBs;
- Automated bulk drug filling systems
- Agenesis has made facility and capital upgrade investments totaling >\$100M since 2021

#### Product/Service offering includes:

- Upstream and Downstream Process Development
- Analytical, Formulation and Cell Line Engineering Development
- Cell Banking
- Drug Product Vialing, Fill, Finish and Labeling/Packaging
- Warehousing for finished product, material storage and distribution with 2-8C and -20C cold rooms

Source: Company, Nuvama Research

- **Berkeley:** This facility has clinical capacity and can offer upstream process development, with potential for operations in analytical and quality control, cell banking/storage and drug substance manufacturing. This site has a total capacity of 2,600L and includes 1x100L, 1x500L and 2x1,000L single-use bioreactors.

Exhibit 3: Berkeley facility



Source: Company, Nuvama Research

Exhibit 4: Capabilities of Berkeley facility

### Annual cGMP Drug Substance Production Capacity = 8-16 Batches\*

- cGMP upstream manufacturing: 1 x 100L, 1 x 500L, and 2 x 1000L SUBs
- All 12 Agenesis mAbs currently in Ph1/Ph2 clinical studies have been manufactured at this facility
- Clinical GMP ready in 2H 2025

#### Product/Service offering includes;

- Upstream Process Development
- Analytical, Formulation and Cell Line Engineering Development
- Cell Banking
- Drug Substance only (no Drug Product)

Source: Company, Nuvama Research

Given the acquisition of these sites, Zydus promptly gets access to the end-to-end biologics value chain from development, analytics, and manufacturing to packaging. These facilities also come with an experienced professional team with relevant industry expertise in biologics development and manufacturing. Currently, both these sites have no manufacturing revenue; hence, it will take some time to contribute to Zydus' revenue. We think this might have a marginally negative impact on profitability for some time as these facilities do not have manufacturing revenue, but will have staff costs and other expenses.

## About Botensilimab and Balstilimab

- **Botensilimab (BOT):** This is an FC enhanced CTLA-4 blocking monoclonal antibody (mAb) that targets a protein named CTLA-4. The CTLA-4 protein acts as a break on immune system (T cells). Cancer cells exploit CTLA-4 protein to slow down the immune response and proliferate in number. Botensilimab blocks CTLA-4, which activates the T cells that attack the cancer cells. FC-enhanced CTLA-4 mAbs are more effective than old generation CTLA-4 mAbs.
- **Balstilimab (BAL):** This is an anti-PD-1 mAb. PD-1 proteins act as a checkpoint, which limit the T cell activity and the immune response. This however leads to the growth of the cancer cells. Balstilimab blocks PD-1 protein and activates T cells, which attack the cancer cells.

As per Agenus' presentation, Botensilimab and Balstilimab (BOT/BAL) combinations are under trial for indications in various types of solid tumours. Agenus also claims that BOT/BAL programmes have successfully treated ~1,100 patients.

**Exhibit 5: Agenus running several clinical programmes for BOT/BAL**

Study/ Sponsor	Regimen	Status	Phase 1	Phase 2	Phase 3	Next Data Update
<a href="#">C-800-01</a> Agenus	Bot +/- Bal	Complete	Solid tumors			1H 2025
<a href="#">C-800-22</a> Agenus	Gem/NabP +/- Bot (randomized)	Enrolling	Pancreatic Cancer (2L+)			2H 2025
<a href="#">C-800-23</a> Agenus	Bot +/- Bal	Enrollment Complete	PD-1 ± CTLA-4 r/r Melanoma (2L+)			1H 2025
<a href="#">C-800-25</a> Agenus	Bot + Bal (randomized)	Enrollment Complete	r/r MSS CRC NLM (3L+)			1H 2025
<a href="#">3B-FOLFOX</a> IST	Bev + FOLFOX + Bot + Bal	Enrolling	MSS-CRC (1L)			1H 2025
<a href="#">UNICORN</a> IST	Bot +/- Bal	Enrollment Complete	Neoadjuvant CRC			1H 2025
<a href="#">NEOASIS</a> IST	Bot + Bal	Enrolling	Neoadjuvant Solid Tumors			1H 2025
<a href="#">NEST</a> IST	Bot + Bal	Enrollment Complete	Neoadjuvant CRC			1H 2025

Source: Company, Nuvama Research



**Exhibit 6: Agenus also has other clinical assets in partnership with large innovators**

Asset	Target	Partner	Phase I	Phase II
MK-4830	Anti-ILT-4	 MERCK		
INCAGN2390*	Anti-TIM-3			
INCAGN2385*	Anti-LAG-3			
UGN-301	RTGel + Zalizrelimab (Anti-CTLA-4)			
Balstilimab + Zalizrelimab**	Anti-PD-1 + 1 <sup>st</sup> Gen Anti-CTLA-4			

Source: Company, Nuvama Research

## Insights on BOT/BAL market opportunity

Yervoy is a CTLA-4 blocking mAb, launched by BMS. This drug clocked USD2.5bn global sales in 2024. The anti-PD-1 mAb market is much bigger in size i.e. ~USD50bn in 2024. Within this, Merck's Keytruda itself clocked USD29.5bn sales in 2024. This shows that Agenus' new generation FC-enhanced CTLA-4 mAb + anti-PD-1 mAb may hold good promise in the future. A successful growth of this mAb combination drug can also provide a consistent stream of revenue to Zydus's CDMO business in future in our view.

## Growing interest from Indian players in biologics CDMO

We observe growing interest on part of Indian CDMOs in the biologics CDMOs. In the past few years, Indian companies are incrementally investing in Biologics CDMO. This includes:

- **Syngene International:** Acquisition of Stelis' manufacturing unit in Bangalore for ~USD85mn (Jun-23) and acquisition of Emergent's biologics unit for USD50mn (Mar-25).
- **Alkem Laboratories:** ~USD50mn capex in the US for biologics-focused continuous manufacturing base (Jun-23).
- **Dr Reddy's Lab:** Invested USD40mn through its subsidiary Aurigene Pharmaceutical Services to expand biologics CDMO capacity (Jun-23).
- **Aurobindo Pharma:** Forayed into the biologics CMO business and is investing to build a manufacturing facility for MSD at a capex of INR10bn (~USD120mn). Its subsidiary, TheraNym Biologics is building this facility, which would include large-scale bioreactors capable to handle mammalian cell culture products and a vial filling isolator line. This unit will have capacity of 25–30mn vials/year (May-24).

## Company Description

Zydus Life is a well-diversified Pharma company with presence across more than 100 countries in the world and among the few Indian players to have presence in Consumer and Animal health businesses. Zydus ranks among the Top10 companies in the Indian pharma market and the India branded business contributes more than 35% of its sales. US contributes 40% of its revenues and is among the top15 generic companies in the US in terms of prescriptions. Zydus recent success in mesalamines has given a good momentum to the US business. Company's focus now is on transdermal patches, vaccines, biosimilars and specialty. Acquisition has been a core to its strategy in recent times primarily aimed at strengthening presence in these markets - Spain, France, Brazil, Neshor Pharma in US, etc. to its credit it also has joint ventures with leading Global Pharma players like Abbott, Bayer, Hospira, Takeda, etc.

## Investment Theme

We think Zydus 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. Zydus 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	3.85	Black Rock	0.84
ICICI Pru AMC	1.86	Norges Bank	0.48
Kotak AMC	1.40	Nippon Life	0.40
PPFAS AMC	1.39	Dimensional	0.27
Vanguard	1.03	Goldman Sachs	0.23

\*Latest public data

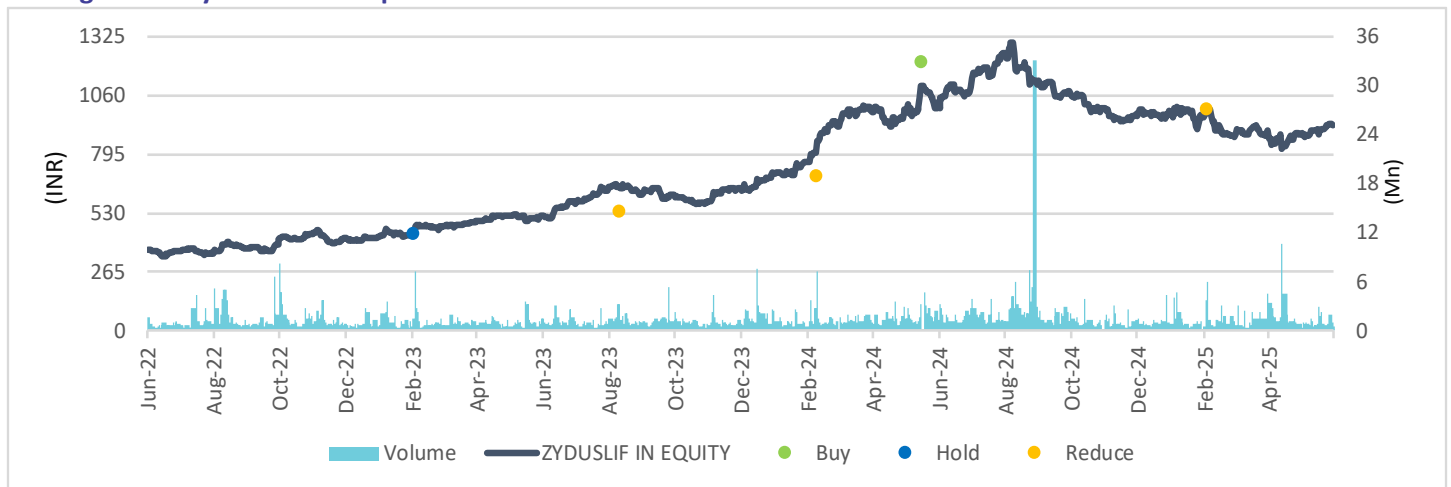
### Recent Company Research

Date	Title	Price	Reco
20-May-25	gMyrbetriq drives performance; <i>Result Update</i>	883	Reduce
12-Mar-25	Amplitude deal: subpar synergies, scale ; <i>Company Update</i>	888	Reduce
05-Feb-25	US growth offsets India weakness; <i>Result Update</i>	977	Reduce

### Recent Sector Research

Date	Name of Co./Sector	Title
30-May-25	Ipca Laboratories	Formulations business, Unichem on track; <i>Result Update</i>
29-May-25	Alkem Laboratories	Guidance triggers downward revision; <i>Result Update</i>
29-May-25	Natco Pharma	Numbers sag; catalysts awaited ; <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%	203
Hold	<15% and >-5%	62
Reduce	<-5%	37

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