Company Update

January 09, 2025

Zota Health Care Ltd

Pharmaceuticals

CMP Rs 988 | MCap Rs 27 bn

Zota Health Care Ltd

Accelerating on growth over short to medium term

CMP	:	Rs988

Stock data (as on January 08, 2025)

Bloomberg Ticker	: ZOTA IN
NSE Code	: ZOTA
52 Week H/L (₹)	: 1023/440
Market Cap (₹ /USD mn)	: 27,180/320
Outstanding Shares (mn)	: 27
Free Float (%)	: 38
ADTV – 3M (USD mn)	: 0.47
Div Yield (%)	: 0.1

Shareholding Pattern (%)

%	Mar-24	Jun-24	Sep-24
Promoter	66.2	64.4	62.4
FII	0.0	0.01	0.01
DII	0.0	0.0	1.0
Public	33.8	35.5	36.6

Financial Summary

(Rs mn)	FY22	FY23	FY24
Revenues	1,312	1,399	1,804
Yoy growth (%)	*23%*	*7%*	*29%*
EBITDA	144	67	76
PAT	89	-58	-143
EPS	3.5	-2.3	-5.6
P/E (x)	279.1	(430.6)	(178.0)
EV/EBITDA (x)	3,325.5	7,315.9	6,484.6
Debt/Equity (x)	-	-	0.2
RoE (%)	11%	-7%	-17%
RoCE (%)	12%	-4%	-10%

Unnati Bhavekar
Research Analyst
unnati.bhavekar@shareindia.com
+91 9819321146

Charvin Zaveri
Research Associate
charvin.zaveri@shareindia.com
+91 7302520261

Zota Healthcare Ltd (ZOTA) is a fast growing generic pharma company, offering a vast range of nutraceutical, Ayurvedic and generic medicines in India.

In domestic market, their products are marketed through their flagship pharmacy chain of stores, Dava India. In their direct to consumer (D2C) model, they have eliminated traditional supply chain intermediaries.

Rise of government-initiated Jan Aushadhi pharmacies has increased awareness and demand for generic products, benefiting Dava India's presence in the generic space.

Dava India's ongoing plans to expand store network are anticipated to put pressure on its operating profitability during FY25E-FY27E. However, as a higher proportion of stores mature, improved profitability is expected, thereafter.

Although, currently, the stock is trading at an elevated valuation levels, given the lack of operating profitability, we believe it will become attractively valued once the profitability recovers from FY27E onwards as most of the new stores mature.

About the company: Started in 2000 and headquartered in Surat, Gujarat, **Zota Healthcare Ltd (ZOTA)** manufactures and exports formulations, nutraceuticals, Ayurvedic and OTC products in both domestic and export markets. In domestic market, ZOTA manufactures and markets those products through its flagship private generic pharmacy chain with 1,165 such pharmacies branded as Dava India; and in domestic marketing business sells it to 1,050 distributors, as of Q2FY25. In exports market, it caters to 30 countries from its manufacturing facility at Sachin, SEZ.

Key Takeaways:

India's largest private generic pharmacy chain: In 2017, ZOTA forayed into generic pharmacy chain, branded Dava India. Since then, it has added 1,165 stores, as of Q2FY25 vs 3 pilot stores back then, making it the largest and fastest growing private generic pharmacy, with 500+ locations across India. The segment has gone on to become the largest revenue-generating segment for the company.

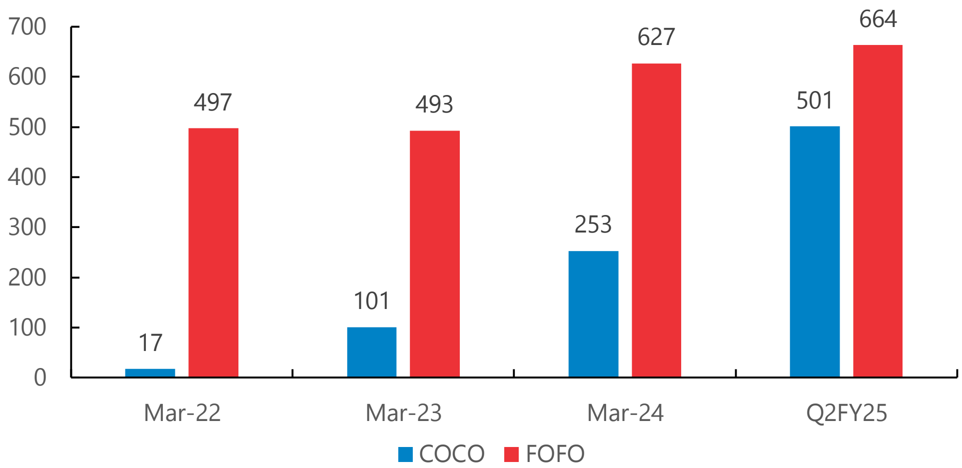
Marketing value chain shorter than other formulation cos: ZOTA's business model eliminates stockists, super stockists, carrying and forwarding agents, and wholesalers and distributors. The business model allows it to be both backward (with finished dosage manufacturing outsourced and Sachin SEZ facility) and forward integrated (with private pharmacy chain), ensuring control of the entire product lifecycle.

Strong backward integration: ZOTA procures finished dosage forms (FDFs) from domestic formulation manufacturers. These products go through meticulous checks for quality and are then packaged and branded under the ZOTA brand.

Strong set of suppliers, which can indicate assurance of quality: Some of its suppliers (around 50) are located in North of India like Baddi, Himachal Pradesh from whom it is sourcing more than 3,000 – 4,000 products, over the last 20-25 years. ZOTA tends to collaborate with WHO-recognised manufacturers, only to ensure quality of products. Some of its suppliers includes Windlas Biotech and others who manufacture branded medicines for large pharma companies, as well.

Exponential growth in COCO stores to drive higher profitability: COCO stores have grown at an exponential pace of 285.8% CAGR, while FOFO have grown at 12.3% CAGR over FY22-FY24. In 2QFY25 also, COCO stores have doubled up to 501 from 253 in FY24. This is likely to benefit the overall profitability, over medium-to-long term, sharply.

Store count across COCO & FOFO

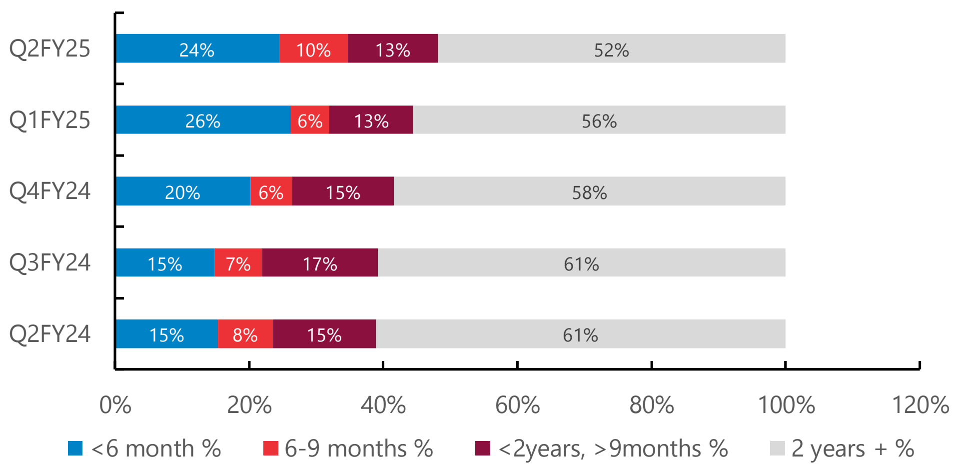


Source: Company, Share India Research

D2C model helps save on final price: ZOTA's feat of a strong scale-up (largely with Franchisee Owned Franchisee Operated – FOFO stores) has been achieved by eliminating traditional supply chain inefficiencies and applying D2C model. The business model focuses on maintaining modest margins of 25%-30% vs other companies who offer higher mark-up of up-to 90% for intermediates, resulting in more affordable prices for ZOTA's consumers and their ability to offer discounts of up-to 30%-90%.

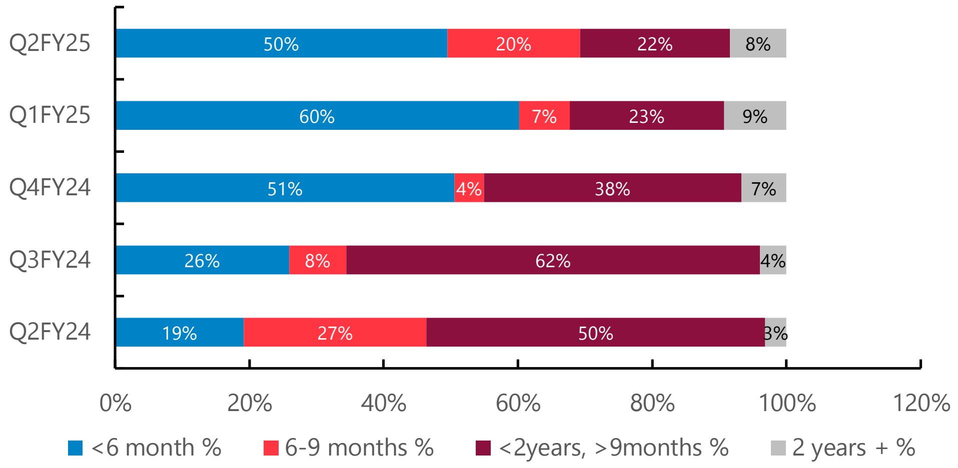
Higher share of new stores to affect short-to-medium-term profitability: ZOTA has a relatively lower number of stores, in the time bucket of older than 2 years (52% of the total stores), or can be stated to be matured. In comparison, MedPlus (listed pharmacy) has 70% of stores, which are 2+ years old. This state is expected to continue putting pressure on operating profitability over FY25E-FY27E, as the gestation period for new stores breaking-even will likely be anywhere between 7 to 12 months.

All stores (COCO+FOFO)



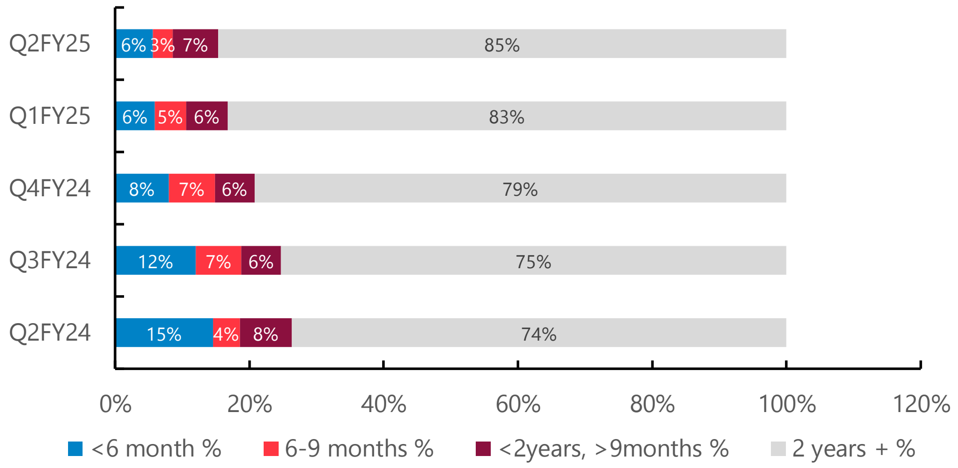
Source: Company, Share India Research

COCO stores across time buckets



Source: Company, Share India Research

FOFO stores across time buckets

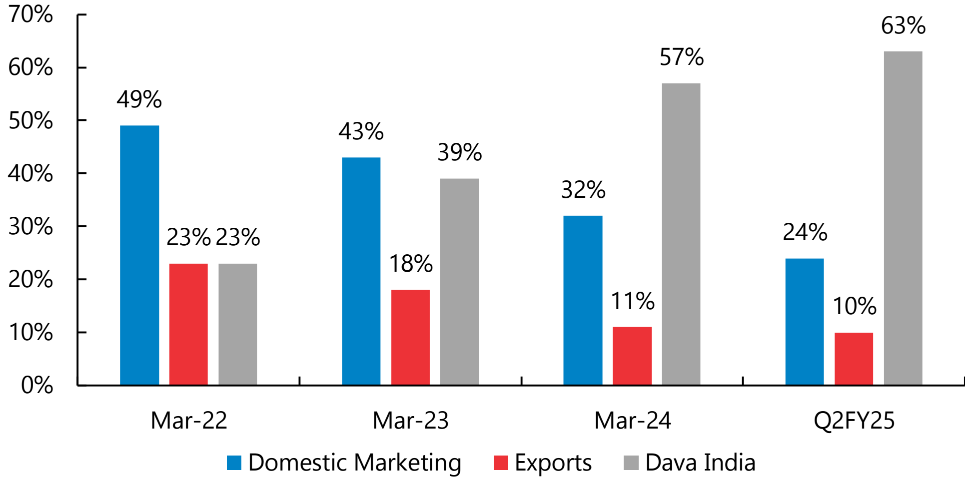


Source: Company, Share India Research

Jan Aushadhi stores leading to increasing demand for ZOTA: Launch of generic pharmacy stores in 2017 has been around commissioning of generic pharmacy stores under Pradhan Mantri Bhartiya Janaushadhi Pariyojana (PMBJP) in 2014 - 2015. We believe that growth in Jan Aushadhi helps increase overall awareness for generic products. We believe this helps ZOTA gain market share in the generic space.

Our view: Zota Healthcare Ltd (ZOTA) is strategically positioned for growth through its innovative business model, expansive pharmacy network, and emphasis on quality, with a focus on long-term profitability and market share in the generics space. **ZOTA's ongoing plans to expand store network are anticipated to put pressure on its operating profitability during FY25E-FY27E. However, as higher proportion of stores mature, improved profitability is expected. Although currently, the stock is trading at an elevated valuation levels given the lack of operating profitability, we believe it will become attractively valued once the profitability recovers from FY27E onwards as most of the new stores mature.**

Segmental revenue breakup



Source: Company, Share India Research

Price Chart – 1Y

Source: Company, Share India Research

Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24
Revenue	951	1,068	1,312	1,399	1,804
% Change YoY	*11%*	*12%*	*23%*	*7%*	*29%*
Operating profit	**45**	**6**	**144**	**67**	**76**
EBITDA margins	**4.7%**	**0.5%**	**11.0%**	**4.8%**	**4.2%**
% Change YoY	*-4%*	*-4%*	*11%*	*-6%*	*-1%*
Depreciation	21	32	37	120	201
EBIT	24	-26	108	-53	-125
EBIT margins	*3%*	*-2%*	*8%*	*-4%*	*-7%*
Interest expense	1	1	3	26	48
Other income	15	13	20	26	12
Profit before tax	39	-4	124	-47	-162
Taxes	11	-2	35	11	-18
Effective tax rate (%)	*29*	*43*	*28*	*-23*	*11*
Net profit	**27**	**-2**	**89**	**-58**	**-143**
% Change YoY	***(51%)***	***(108%)***	***(4364%)***	***(165%)***	***(149%)***
EPS (Rs)	1.1	-0.1	3.5	-2.3	-5.6

Source: Company, Share India Research

Cash Flow Statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24
Profit before Tax	39	-4	124	-47	-162
Non cash items	11	14	27	137	233
(Inc)/Dec in WC	17	-19	20	-88	-116
Direct Taxes Paid	1,410	1,411	1,412	877	-18
CF from Oper. Activity	**55**	**-9**	**133**	**-20**	**-60**
(Inc)/Dec in FA	(8)	(8)	(32)	(114)	(167)
Free Cash Flow	47	-17	101	-134	-227
(Pur)/Sale of Invest.	16	40	(248)	253	28
Others	(43)	6	14	8	10
CF from Inv. Activity	**(35)**	**38**	**(267)**	**147**	**(129)**
Change in Net worth	1	0	187	0	261
Inc/(Dec) in Debt	0	1	-19	-101	-47
Misc. Inv.	(30)	(25)	(25)	(38)	(26)
CF from Fin. Activity	**(29)**	**(24)**	**143**	**(139)**	**188**
Inc/(Dec) in Cash	(9)	5	10	(12)	(1)
Opening Cash Balance	**17**	**8**	**13**	**23**	**11**
Closing Cash Balance	8	13	23	11	10

Source: Company, Share India Research

Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23	FY24
Sources of Funds					
Equity capital	246	246	252	252	258
Reserves	443	417	645	552	641
Net worth	**688**	**663**	**896**	**804**	**900**
Debt	0	0	0	0	147
Non-Current Liabilities	11	10	134	361	647
Total liabilities	**699**	**672**	**1,030**	**1,165**	**1,695**
Application of Funds					
Fixed Asset	**154**	**141**	**291**	**652**	**1,075**
Other Non Current Assets	3	3	1	1	45
Investments	139	99	328	75	47
Net Working Capital	**394**	**416**	**386**	**425**	**518**
Current assets	580	599	746	831	1,106
Cash & equivalents	8	13	23	11	10
Current liabilities	186	182	360	405	588
Total Assets	**699**	**672**	**1,030**	**1,165**	**1,695**

Source: Company, Share India Research

Ratio Analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23	FY24
Basic (Rs)					
EPS	1.1	-0.1	3.5	-2.3	-5.6
Valuation ratios (x)					
P/E	885.1	(11,615.9)	279.1	(430.6)	(178.0)
P/B	-	742.5	549.2	612.5	547.1
EV/EBIDTA	(0.2)	84,453.6	3,325.5	7,315.9	6,484.6
Profitability Ratios (%)					
RoIC	4%	0.1%	-1%	2%	9%
RoE	4%	-0.3%	11%	-7%	-17%
RoCE	4%	-2%	12%	-4%	-10%
Liquidity ratios					
Debtor (days)	-	99	91	84	56
Inventory (days)	-	91	79	92	97
Creditor (days)	-	138	122	117	92
Net working Capital (days)	-	52	48	59	61
Asset Turnover (x)	4	4	3	2	2

Source: Company, Share India Research

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