

ICICI Securities Limited  
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Q4FY21 results review  
and earnings revision

## Consumer

Target price: Rs2,500

### Earnings revision

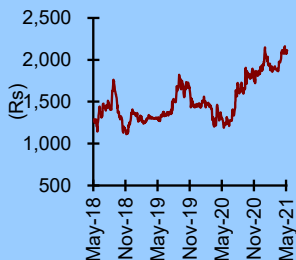
(%)	FY22E	FY23E
Sales	↑ 2.3	↑ 2.3
EBITDA	↑ 2.2	↑ 2.5
PAT	↑ 3.0	↑ 2.4

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	64.8	64.8	64.8
Institutional investors	27.5	27.8	27.7
MFs and other	9.1	9.1	7.7
Banks/FIs	3.5	3.5	3.4
FII	14.9	15.2	16.6
Others	7.7	7.4	7.5

Source: BSE

### Price chart



## INDIA

# Zydus Wellness

**BUY**

Maintain

**Rs2,109**

## Symphony; retain top pick status

Q4 performance was impressive with double digit-growth (on 2-year CAGR as well) across brands except for Glucon-D which was impacted due to delayed onset of summer season. We believe the acquisition of Heinz India business is transformational for Zydus, given the increased consumer focus on health and wellness – likely accelerated consumer adoption of >70% of the portfolio (Sugar Free, Glucon-D, Nutralite and Complian). We especially like the new product development strategy (contributes ~3.5% vs ~1.5 earlier) aimed to address some key challenges – SugarLite to address the taste penalty, Sugar Free Green is a natural product, Complian Nutrigo to regain lost medical connect of the brand. Zydus also expanded its direct reach to 0.55mn outlets by Mar'21 which will allow it to participate in larger categories. Deleveraging is likely to drive FCF generation faster. Reiterate BUY.

- **Strong growth momentum continues:** Reported revenue / EBITDA / recurring PAT grew by 24% / 39% / 85% YoY driven by strong performance of double-digit growth in most of the consumer brands (double-digit growth in 2-year CAGR as well) except for Glucon D as the summer season was delayed. Nutralite (75% is B2B business) also continued to witness sequential recovery.
- **Margins expanded despite higher ad-spends driven by input cost benefit and operating leverage:** Gross margin expanded 70bps to 54.6% driven by better product mix and benefits of deflationary milk prices. However, reported EBITDA margin expanded higher by 260bps to 24% despite significant step-up in ad-spends (+450bps YoY; +65% YoY) driven by operating leverage - lower staff cost (-300bps) and other expenses (-140bps) due to cost saving initiatives. Management stated that they are on track to reach EBITDA margins of 20% by FY22.
- **Other highlights:** 1) OCF / FCF grew by 11% / 14% to Rs2.9bn / Rs2.7bn, 2) working capital days increased by 21 days largely due to higher inventory days and lower creditor days, 3) Direct reach increased to 0.55mn outlets, 4) E-commerce grew ~3x in FY21 (~3.6 of domestic revenues), 5) Exports business grew by ~2x in FY21 (~3% of overall business), and 6) launched 11 new products in FY21 (NPD now contributes ~3.5% of business).
- **Valuation and risks:** We increase our earnings estimates by ~3% for FY22-23E. We model revenue / EBITDA / PAT CAGR of 11% / 19% / 36% over FY21-23E – net profit likely to grow ahead of revenue and EBITDA driven by deleveraging of balance sheet. Maintain **BUY** with a DCF-based unchanged target price of Rs2,500. At our target price, the stock will trade at 35x P/E multiple Mar-23E. Key downside risks are delays or failures in new product development or inability to expand distribution.

Market Cap	Rs134bn/US\$1.8bn
Reuters/Bloomberg	ZYDS.BO/ZYWL IN
Shares Outstanding (mn)	63.6
52-week Range (Rs)	2163/1188
Free Float (%)	35.2
FII (%)	16.6
Daily Volume (US\$'000)	1,718
Absolute Return 3m (%)	11.2
Absolute Return 12m (%)	62.5
Sensex Return 3m (%)	(3.4)
Sensex Return 12m (%)	58.2

Year to March	FY20	FY21P	FY22E	FY23E
Net Revenue (Rs mn)	17,668	18,667	20,758	23,140
Net Profit (Rs mn)	1,859	2,509	3,680	4,608
Dil. EPS (Rs)	32.2	39.4	57.8	72.4
% Chg YoY	3.5	22.3	46.7	25.2
P/E (x)	65.4	53.5	36.5	29.1
CEPS (Rs)	29.2	22.6	61.8	76.4
EV/EBITDA (x)	35.4	36.4	30.2	25.8
Dividend Yield (%)	0.2	0.2	0.7	0.9
RoCE (%)	6.0	6.5	7.8	9.0
RoE (%)	5.4	6.2	7.8	9.2

Please refer to important disclosures at the end of this report

### Research Analysts:

#### Manoj Menon

manoj.menon@icicisecurities.com  
+91 22 6637 7209

#### Karan Bhuwania

karan.bhuwania@icicisecurities.com  
+91 22 6637 7351

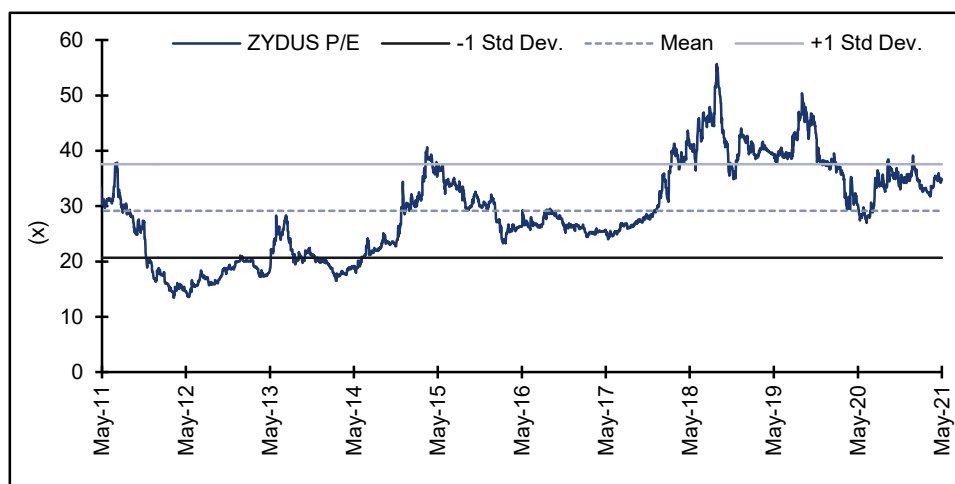
Table 1: Q4FY21 results review

(Rs mn)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net Revenue</b>	<b>6,057</b>	<b>4,879</b>	<b>24</b>	<b>3,816</b>	<b>59</b>	<b>18,667</b>	<b>17,668</b>	<b>6</b>
COGS	(2,750)	(2,250)	22	(1,731)	59	(8,449)	(7,788)	8
<b>Gross profit</b>	<b>3,307</b>	<b>2,629</b>	<b>26</b>	<b>2,085</b>	<b>59</b>	<b>10,218</b>	<b>9,881</b>	<b>3</b>
Staff cost	(400)	(468)	(14)	(384)	4	(1,638)	(1,654)	(1)
A&SP	(730)	(464)	58	(568)	29	(2,296)	(2,278)	1
Other opex	(723)	(652)	11	(638)	13	(2,840)	(2,738)	4
<b>Total opex</b>	<b>(1,853)</b>	<b>(1,583)</b>	<b>17</b>	<b>(1,590)</b>	<b>17</b>	<b>(6,775)</b>	<b>(6,670)</b>	<b>2</b>
<b>EBITDA</b>	<b>1,454</b>	<b>1,046</b>	<b>39</b>	<b>495</b>	<b>193</b>	<b>3,444</b>	<b>3,211</b>	<b>7</b>
Other income	18	13	38	25	(29)	89	107	(17)
Finance cost	(85)	(347)	(76)	(99)	(14)	(838)	(1,399)	(40)
D&A	(60)	(69)	(13)	(63)	(4)	(252)	(264)	(5)
<b>PBT</b>	<b>1,327</b>	<b>643</b>	<b>106</b>	<b>359</b>	<b>269</b>	<b>2,443</b>	<b>1,655</b>	<b>48</b>
Tax	5	76	(94)	-	-	65	205	(68)
<b>PAT</b>	<b>1,331</b>	<b>719</b>	<b>85</b>	<b>359</b>	<b>271</b>	<b>2,509</b>	<b>1,859</b>	<b>35</b>
Minority Interest	-	-	-	-	-	-	-	-
<b>PAT after MI</b>	<b>1,331</b>	<b>719</b>	<b>85</b>	<b>359</b>	<b>271</b>	<b>2,509</b>	<b>1,859</b>	<b>35</b>
Extraordinary items	-	(28)	-	(342)	-	(1,321)	(442)	-
<b>Net profit (reported)</b>	<b>1,331</b>	<b>691</b>	<b>93</b>	<b>17</b>	<b>7,551</b>	<b>1,187</b>	<b>1,417</b>	<b>(16)</b>
<b>EPS</b>	<b>20.9</b>	<b>12.5</b>	<b>68</b>	<b>5.6</b>	<b>271</b>	<b>40.9</b>	<b>32.2</b>	<b>27</b>
<b>Costs as a % of sales</b>								
COGS	45.4	46.1	-71 bps	45.4	4 bps	45.3	44.1	118 bps
<b>Gross margin (%)</b>	<b>54.6</b>	<b>53.9</b>	<b>70 bps</b>	<b>54.6</b>	<b>-5 bps</b>	<b>54.7</b>	<b>55.9</b>	<b>-119 bps</b>
Staff cost	6.6	9.6	-298 bps	10.1	-345 bps	8.8	9.4	-59 bps
A&SP	12.1	9.5	255 bps	14.9	-283 bps	12.3	12.9	-60 bps
Other opex	11.9	13.4	-143 bps	16.7	-480 bps	15.2	15.5	-28 bps
<b>EBITDA margin (%)</b>	<b>24.0</b>	<b>21.4</b>	<b>256 bps</b>	<b>13.0</b>	<b>1101 bps</b>	<b>18.4</b>	<b>18.2</b>	<b>27 bps</b>
Income tax rate (%)	(0.4)	(11.9)	1151 bps	0.0	-36 bps	(2.7)	(12.4)	969 bps

Source: Company data, I-Sec research

Chart 1: Mean P/E and standard deviations

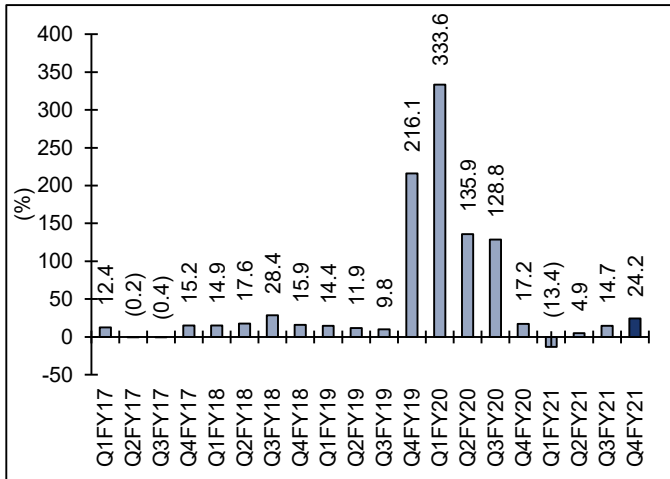


Source: Company data, I-Sec research

## Q4FY21 call takeaways

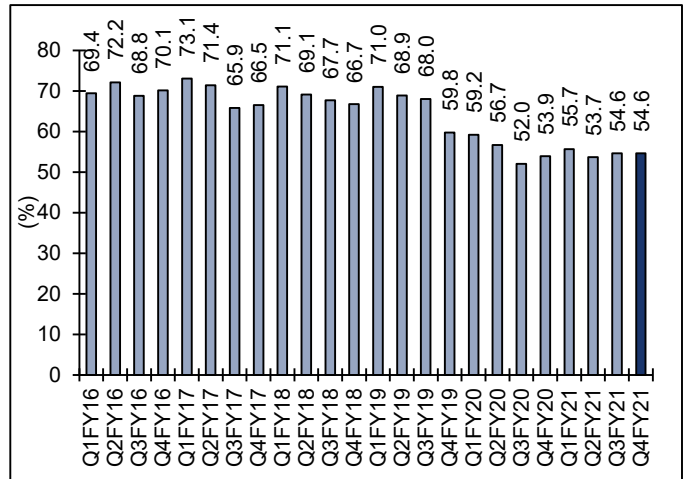
- **Brand wise performance:** Management stated that double-digit sales growth was broad based – led by marketing initiatives and market share gains.
  - Sugarfree witnessed double-digit revenue growth (volume led) during the quarter and FY21 with SugarLite revenue doubled in FY21 on a low base.
  - Glucon-D witnessed good growth but was impacted due to late onset of summer season during the quarter.
  - Nycil also performed well (strong double-digit growth in FY21) with market share gains of 225bps YoY to 35.8%.
  - Everyuth witnessed strong double-digit growth during the quarter. Market share improved by ~174bps YoY to 35.8%.
  - Nutralite performance improved sequentially to 100% of pre-Covid levels by March-end. Some price hikes have been taken to pass on the steep inflation in palm oil.
  - Complian also witnessed high double-digit growth during the quarter (volume-led; high single-digit growth in FY21) with marketing initiatives and increase in distribution reach to 0.55mn outlets. Market share of 5.5%.
- **Input cost and price hikes:** Management said that they are witnessing input cost headwinds in palm oil and packaging material which will largely set off by deflation in milk and milk derivatives, better product mix and price hikes (company is market leader in most of the niche categories and pricing power is high as per management). Management expects to improve gross margins YoY. Further management is on track to report 20% EBITDA margin by FY22.
- **Project Vistaar:** Management has been able to increase its direct reach to 0.55mn outlets (had targeted 0.5mn outlets). Further, management plans to improve servicing of these outlets by implementing digitisation (Sales force automation) across the chain. Further, they also have plans to improve rural reach in some of the areas in the country.
- **New product launches:** Zydus launched 11 products during FY21 and NPD now contributes ~3.5% of business (~1-1.5% earlier). Management aspires to increase the contribution of NPD to ~5%. Further, management said that with stronger direct reach of 0.55mn outlets (which is required in new product launches), they plan to participate in some of the larger categories (historically the company has been largely present in niche categories). *Nycil “soothing body mist”* was launched to address prickly heat and skin rash problems in Q4. Further, foraying into the dairy segment under the Nutralite banner, two new products, *Nutralite DoodhShakti Probiotic Butter Spread* and *Nutralite DoodhShakti Pure Ghee* were launched.
- **Taxation:** Management said that they will continue with the zero taxation for 2-3 years due to 1) accumulated losses in subsidiaries, 2) MAT credit available and 3) tax incentives from one of its manufacturing plant. ([See report here](#)).
- **Management aspires to increase contribution of international business to 8%** (currently it is more than 3% of overall business).

**Chart 2: Revenue growth (consolidated)**



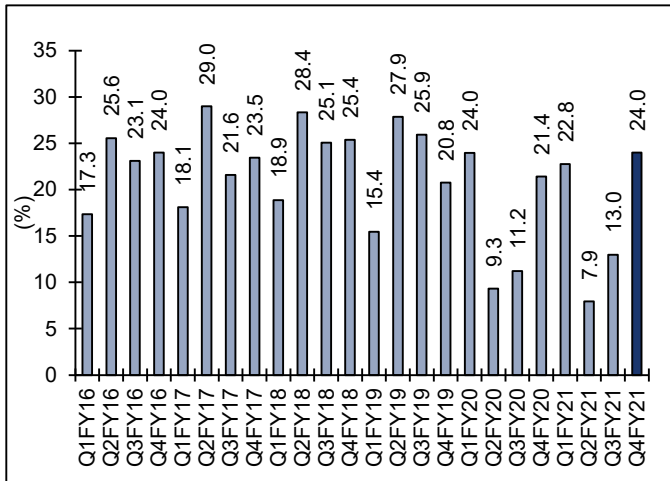
Source: Company data, I-Sec research

**Chart 3: Gross margin (consolidated)**



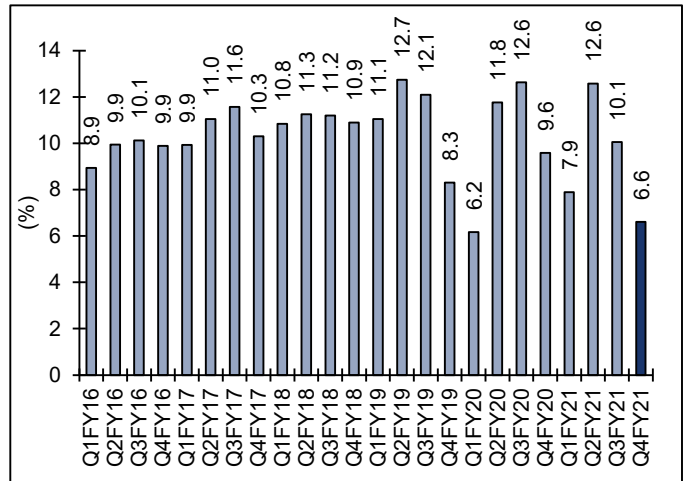
Source: Company data, I-Sec research

**Chart 4: EBITDA margin (consolidated)**



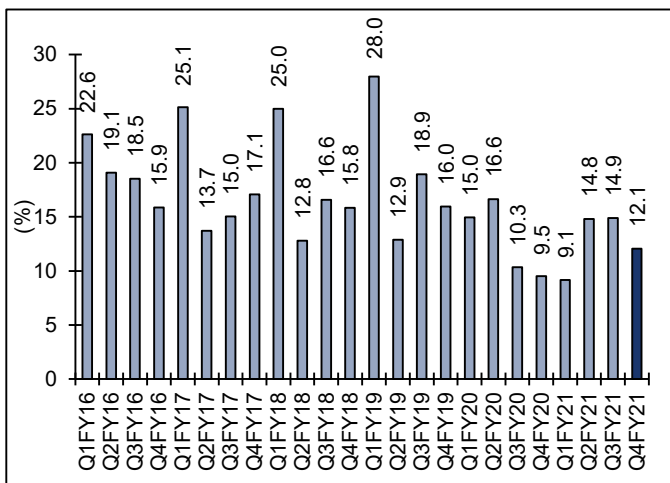
Source: Company data, I-Sec research

**Chart 5: Staff cost as a % of sales**



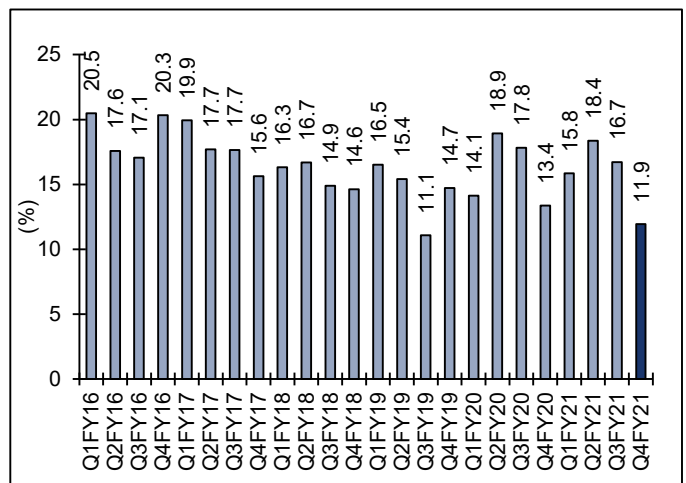
Source: Company data, I-Sec research

**Chart 6: Ad-spends as a % of sales**



Source: Company data, I-Sec research

**Chart 7: Other expenses as a % of sales**



Source: Company data, I-Sec research

## Financial summary

Table 2: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Net Sales &amp; Operating income</b>	<b>17,668</b>	<b>18,667</b>	<b>20,758</b>	<b>23,140</b>
<b>Operating Expenses</b>	<b>14,458</b>	<b>15,223</b>	<b>16,602</b>	<b>18,277</b>
<b>EBITDA</b>	<b>3,211</b>	<b>3,444</b>	<b>4,156</b>	<b>4,863</b>
% margins	18.2	18.4	20.0	21.0
Depreciation & Amortisation	264	252	252	253
Gross Interest	1,399	838	349	166
Other Income	107	89	126	165
<b>Recurring PBT</b>	<b>1,655</b>	<b>2,443</b>	<b>3,680</b>	<b>4,608</b>
Less: Taxes	(205)	(65)	-	-
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,417</b>	<b>1,187</b>	<b>3,680</b>	<b>4,608</b>
Extraordinaries (Net)	(442)	(1,321)	-	-
<b>Recurring Net Income</b>	<b>1,859</b>	<b>2,509</b>	<b>3,680</b>	<b>4,608</b>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	7,758	8,469	9,605	11,500
of which cash & cash eqv.	824	2,527	3,054	4,261
Total Current Liabilities & Provisions	5,826	5,337	5,906	6,584
<b>Net Current Assets</b>	<b>1,932</b>	<b>3,132</b>	<b>3,699</b>	<b>4,916</b>
Investments	161	219	244	271
Net Fixed Assets	46,735	46,674	46,629	46,606
Capital Work-in-Progress	35	37	37	37
<b>Total Assets</b>	<b>48,863</b>	<b>50,063</b>	<b>50,609</b>	<b>51,831</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>15,464</b>	<b>5,650</b>	<b>3,407</b>	<b>1,166</b>
<b>Deferred Tax Liability</b>	<b>(1,208)</b>	<b>(1,265)</b>	<b>(1,265)</b>	<b>(1,265)</b>
Minority Interest	-	-	-	-
Equity Share Capital	577	636	636	636
Face Value per share (Rs)	10.00	10.00	10.00	10.00
Reserves & Surplus*	34,030	45,042	47,831	51,293
Less: Misc. Exp. n.w.o.				
<b>Net Worth</b>	<b>34,607</b>	<b>45,678</b>	<b>48,467</b>	<b>51,930</b>
<b>Total Liabilities</b>	<b>48,863</b>	<b>50,063</b>	<b>50,609</b>	<b>51,831</b>

Source: Company data, I-Sec research

Table 4: Quarterly trends

(Rs mn, year ending March 31)

	Jun 20	Sep 20	Dec 20	Mar 21
<b>Net Revenues</b>	<b>5,374</b>	<b>3,420</b>	<b>3,816</b>	<b>6,057</b>
% growth (YoY)	(13.4)	4.9	14.7	24.2
<b>EBITDA</b>	<b>1,224</b>	<b>271</b>	<b>495</b>	<b>1,454</b>
Margin (%)	22.8	7.9	13.0	24.0
Other income	18	28	25	18
Extraordinaries (Net)	-	(980)	(342)	-
<b>Adjusted Net profit</b>	<b>892</b>	<b>(74)</b>	<b>359</b>	<b>1,331</b>

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Cashflow</b>	<b>2,753</b>	<b>3,523</b>	<b>4,156</b>	<b>4,863</b>
Working Capital Changes	(160)	(658)	(47)	(19)
Capital Commitments	(246)	(197)	(208)	(230)
<b>Free Cashflow</b>	<b>2,346</b>	<b>2,669</b>	<b>3,902</b>	<b>4,614</b>
<b>Cashflow from Investing Activities</b>	<b>(832)</b>	<b>(104)</b>	<b>(82)</b>	<b>(66)</b>
Issue of Share Capital	-	9,866	-	-
Inc (Dec) in Borrowings	(1,903)	(12,026)	(2,609)	(2,426)
Dividend paid	(694)	(2)	(891)	(1,145)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(837)</b>	<b>599</b>	<b>527</b>	<b>1,207</b>
Closing cash & balance	3,050	3,649	4,176	5,383

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	32.2	39.4	57.8	72.4
Cash EPS	29.2	22.6	61.8	76.4
Dividend per share (DPS)	5.0	5.0	14.0	18.0
Book Value per share (BV)	600.2	717.9	761.7	816.1
<b>Growth (%)</b>				
Net Sales	109.6	5.7	11.2	11.5
EBITDA	73.7	7.3	20.7	17.0
PAT	(16.2)	(16.2)	210.0	25.2
DPS	-	(0.0)	180.0	28.6
<b>Valuation Ratios (x)</b>				
P/E	65.4	53.5	36.5	29.1
P/CEPS	72.3	93.3	34.1	27.6
P/BV	3.5	2.9	2.8	2.6
EV / EBITDA	35.4	36.4	30.2	25.8
EV / Sales	6.4	6.7	6.0	5.4
<b>Operating Ratios</b>				
Raw Material / Sales (%)	44.1	45.3	44.8	44.3
Employee cost / Sales (%)	9.9	8.8	8.7	8.7
Other exps / Sales (%)	27.9	27.5	26.5	26.0
Other Income / PBT (%)	6.5	3.7	3.4	3.6
Effective Tax Rate (%)	(12.4)	(2.7)	-	-
Working Capital (days)	(2.3)	13.1	12.6	11.6
Inventory Turnover (days)	60.4	71.3	70.8	70.3
Receivables (days)	24.4	18.4	17.9	17.4
Payables (days)	101.5	85.8	85.3	85.3
Net D/E (x)	0.4	0.1	0.0	(0.1)
<b>Profitability Ratios (%)</b>				
Net Income Margins	8.0	6.4	17.7	19.9
RoACE	6.0	6.5	7.8	9.0
RoAE	5.4	6.2	7.8	9.2
Dividend Payout	24.5	26.8	24.2	24.9
Dividend Yield	0.2	0.2	0.7	0.9
EBITDA Margins	18.2	18.4	20.0	21.0

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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