

July 31, 2022

RESULT REPORT Q1 FY23 | Sector: Consumer Staples

Zydus Wellness

Improved quarter performance led by market share gains; maintain ADD

Our view

Q1 performance was quite encouraging on the growth fronts led by 10.3% volume growth and sequential market share gains in key brands Glucon-D, Nycil and Everyuth. Complian and Sugar Free continue to struggle since last few quarters due to category decline and less aggression in distribution expansion. Timely price hikes in Q4 also aided gross margin contraction to only 110bps. Few positives were strong double-digit growth in Glucon-D, Nycil and Everyuth with improved market share. Sales reorganization should drive better sales for Nutralite while strong summer should drove growth in Nycil and Glucon-D. New launches across the portfolio with NPD of several launches in coming quarters and increased focus in MT and e-com channel create decent growth visibility. We see a long growth headroom for the company given strong brand equity and leadership position in most segments, less than 20% penetration across its categories, multiple brand extension opportunities especially in health and wellness, strong R&D capabilities of the parent company and best-in-class brand spends, all of which can help the company grow above industry growth rates over the longer term. Margins should start improving post 1H as headwinds persist due to uncertainty around inflation. Category decline and competitive intensity together with less focus in Complian led to growth headwinds and market share loss. We maintain an ADD rating given structural positives and long term potential for its key power brands are intact.

Result Highlights

- **Topline** – Revenue/EBITDA/PAT growth of 16.6%/5.5%/7%, 3-yr revenue CAGR of 3.9%. Revenue growth came in above estimate on a base of 11.2% growth at Rs 6.9bn with volume growth at 10.3%, key positives were double-digit growth in Glucon-D, Nycil, Nutralite and Everyuth.
- **Margins** – Gross margin lower by 110bps YoY to 54.3% impacted by inflation in RPO, Aspartame and milk prices, EBITDA margin dipped 220bps to 21.3% as management increased A&P spends by 39% YoY, other expenses also increased 13.3% YoY.

Valuation

Q1FY23 posted positive performance in growth fronts while margins continue to remain below 20% in FY23, we maintain our estimates and build in revenue/EBITDA/PAT CAGR of 11%/18%/5% over FY22-24E and maintain ADD with a TP of Rs 1,858 based on 35x FY24E earnings (in-line with average). We now expect a re-rating only once we see sustainable double-digit volume growth and margin expansion backed by successful innovation and distribution expansion.

Exhibit 1: Actual vs estimate

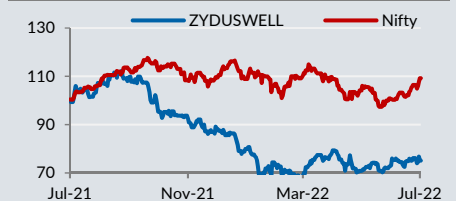
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,968	6334	6371	10.0	9.4	Strong volume growth but higher A&P and other expenses weigh on margins
EBITDA	1,481	1413	1484	4.8	-0.2	
EBITDA Margin (%)	21.3	22.3	23.3	(105.0)	-203.5	
Adjusted PAT	1,399	1331	1076	5.1	30.0	

Reco	: ADD
CMP	: Rs 1,618
Target Price	: Rs 1,858
Potential Return	: +14.8%

Stock data (as on July 29, 2022)

Nifty	16,259
52 Week h/l (Rs)	2477 / 1430
Market cap (Rs/USD mn)	105986 / 1366
Outstanding Shares (mn)	64
6m Avg t/o (Rs mn):	72
Div yield (%)	0.3
Bloomberg code:	ZYWL IN
NSE code:	ZYDUSWELL

Stock performance



	1M	3M	1Y
Absolute return	-0.1%	-5.0%	-24.2%

Shareholding pattern (As of June'22 end)

Promoter	65.1%
FII+DII	27.5%
Others	7.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,858	1,858

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	59.3	53.1
EPS (Old)	59.3	53.1
% change	-	-

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	20,091	22,139	24,766
YoY Growth (%)	7.6	10.2	11.9
EBITDA	3,448	4,115	4,798
Margins (%)	17.2	18.6	19.4
PAT	3,089	3,775	3,378
YoY Growth (%)	23.1	22.2	(10.5)
ROE	6.6	7.6	6.4
ROCE	6.4	7.5	8.5
EPS	48.5	59.3	53.1
P/E	33.3	27.3	30.5
EV/EBITDA	30.4	24.4	20.3

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- **Earnings** – Adjusted PAT increased 7% to Rs1.4bn Q1FY23 aided by lower interest expense. Incurred one-time expense of Rs 29mn for cessation of Sitarganj manufacturing facility.
- **Market share** – Glucon-D – 60.4% market share (+220bps YoY), Complian – 4.8% (-70bps YoY), Sugarfree – 95.5% lower QoQ by 20bps, Nycil – 34.2% (+50bps QoQ) in prickly heat powder, Everyuth scrub – 41.8% in facial scrub (+490bps YoY), Peel Off – 76% (-20bps QoQ) in peel off. Overall company lost market share in Complian, Nycil.
- **Other highlights** – Complian - HFD category witnessing slowdown leading to downtrading to LUPs, media campaigns to highlight the superiority of protein over competition. Glucon-D – brand campaigns and strong demand led to double-digit growth in Glucon-D, launched 20gm sachet and new variant of Kaccha Mango in Immunovolt. Everyuth – TV and digital campaigns from face wash, scrubs and peel-offs led to double-digit growth, Nycil also grew in double digit on the back of severe summer season. Sugar Free – muted growth on a high base, distribution expanded to 4.97 lac outlets. Witnessed 20%/25%/55%/5% inflation in milk/RPO/Aspartame/diesel. MT and E-comm channel contributing 18% in FY22 from 14% in FY21, e-comm alone contributing 6.5% in FY22. Direct reach at 6 lac outlets, plan to expand to 1mn outlets by FY25, overall reach at 2.5mn stores

Exhibit 2: Quarterly snapshot (Consolidated)

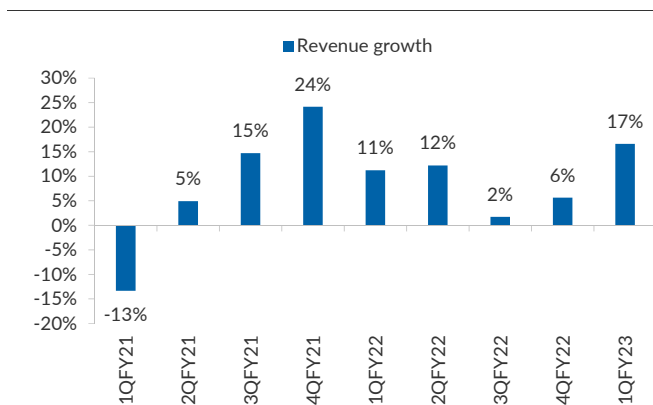
Particulars (Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	% yoy	% qoq	FY22	FY21	% yoy
Sales	5,976	3,837	3,881	6,398	6,968	16.6	8.9	20,091	18,667	7.6
EBITDA	1,404	305	323	1,415	1,481	5.5	4.7	3,447	3,444	0.1
EBITDA Margin %	23.5	8.0	8.3	22.1	21.3	(224.0)	(85.1)	17.2	18.4	(129.1) bps
Depreciation	56	61	58	61	60	8.1	(0.7)	236	252	(6.1)
EBIT	1,348	244	265	1,354	1,421	5.4	5.0	3,211	3,192	0.6
EBIT Margin %	22.6	6.4	6.8	21.2	20.4	(217.1)	(76.7)	16.0	17.1	(111.9) bps
Interest charges	64	67	64	60	41	(35.5)	(30.8)	255	838	(69.6)
Other Income	24	34	27	20	20	(18.4)	(0.5)	104	89	16.3
PBT	1,308	211	227	1,314	1,399	6.9	6.5	3,060	2,443	25.2
Tax	0	0	-6	-19	-0			(25)	-65	(62.0)
Effective Tax Rate (%)	0.0	0.0	-2.6	-1.4	-0.0			-0.8	-2.7	
PAT	1,308	211	233	1,333	1,399	7.0	5.0	3,085	2,509	23.0
PAT Margin %	21.9	5.5	6.0	20.8	20.1	(180.7)	(74.6)	15.4	13.4	191.4 bps
EPS (Rs)	20.6	3.3	3.7	20.9	22.0	7.0	5.0	48.5	39.4	23.0

Source: Company, YES Sec

CONCALL HIGHLIGHTS

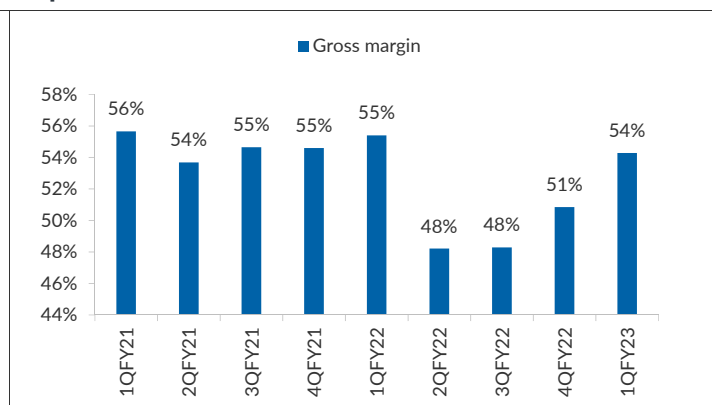
- **Demand** – Resurgence in demand in Glucon-D and Nycil led to double digit growth which was not there in last two season. 3-yr CAGR volume growth is 3.5%.
- **Everyuth** – Outlets increased to 6.8lacs from 6 lacs YoY. Focus on developing category and duistribution expansion for Everyuth scrub.
- **Sugarfree** – currenly have 26,000 outlets, may see some challenges continuing will see consumption increasing going forward. Need to build direct distribution for Sugar Free as wholesale and other channels are not very helpful for them.
- **Complan** – large pack market shares intact, LUPs have seen some market share loss, so will need to address issues pertaining to LUPs. Category declined by 4% while growth has been coming from small packs. Launched 450gm pouch pack in West Bengal last quarter, will be launching chocolate variant and scaling them to pan India.
- **Inflation and price increase** – Except milk, other RM prices are coming down. Margins will be below 20% in FY23. Have taken price increase whenever required except Complan where competition reduced prices.
- **Glucon-D** – In last 2 years, penetration has gone down, needed to recruit customers. Created campaign with Pankaj Tripathi, also created local campaigns in UP and Bihar. Sales recovered to pre-covid levels for Glucon-D and Nycil.
- **Other highlights** – focus will be on to develop body lotion and Nutralite Doodhshakti categories and less on Complan. Employee expenses will be growing at normal wage rates going forward.

Exhibit 3: strong revenue growth driven by 10.3% volume growth



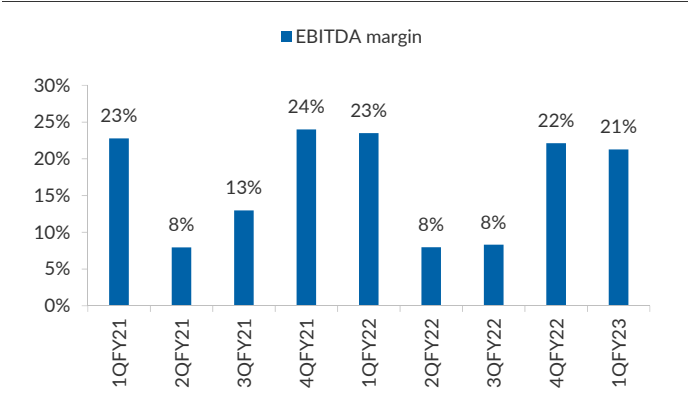
Source: Company, YES Sec

Exhibit 4: Price hike led to higher gross margin however still lower YoY due to inflation in RPO, milk prices and aspartame



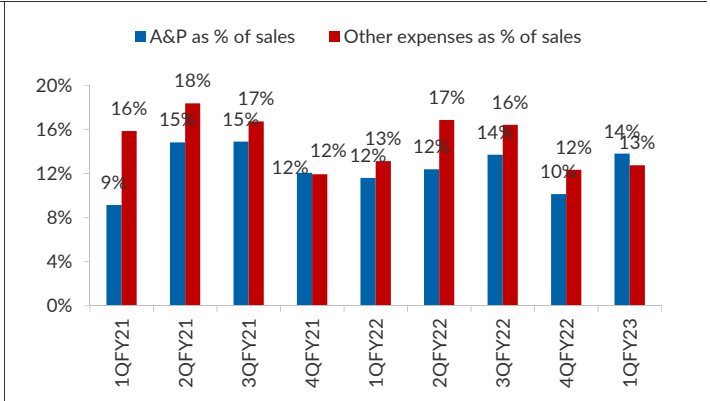
Source: Company, YES Sec

Exhibit 5: EBITDA margin saw 220bps decline owing to higher A&P and other expenses



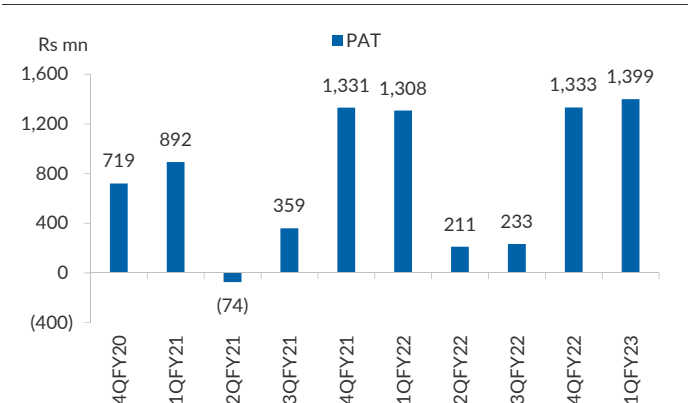
Source: Company, YES Sec

Exhibit 6: A&P spend increased ~39% YoY while other expenses were higher 13% YoY



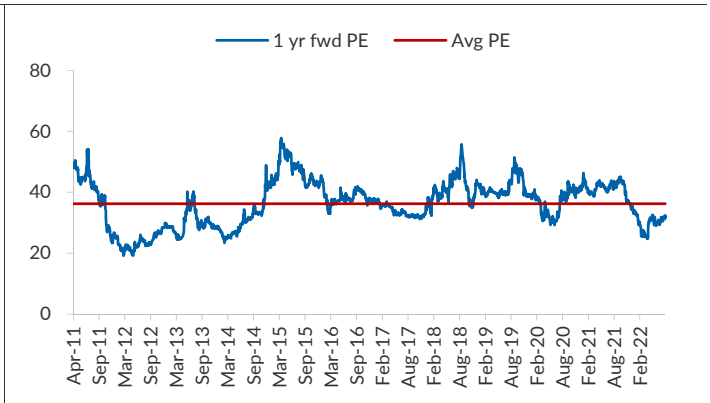
Source: Company, YES Sec

Exhibit 7: PAT came in at Rs 1.4bn implying only 7% increase due to lower operating margin



Source: Company, YES Sec

Exhibit 8: Currently trading at 31.7x 1-yr fwd earnings



Source: Company, YES Sec

Exhibit 9: Market share trends

Key brands	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Glucon - D	59.0%	58.30%	58.4%	58.2%	58.2%	58.1%	58.5%	60.4%
Complan	5.4%	5.5%	5.5%	5.5%	5.4%	5.2%	5.0%	4.8%
Sugar free	93.6%	94.96%	93.0%		96.2%	96.0%	95.7%	95.5%
Nycil	34.4%	35.70%	35.8%	35.2%	34.5%	34.0%	33.7%	34.2%
Everyuth - Facial cleansing	6.0%		6.1%	6.3%	6.5%	6.5%	6.5%	6.6%
Everyuth - Scrub	35.8%	34.80%	35.8%	36.9%	39.2%	39.2%	39.0%	41.8%
Everyuth - Peel off	77.9%		77.9%	77.6%	77.3%	76.4%	76.2%	76.0%

Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Equity capital	577	637	636	636	636
Reserves	34,030	45,042	47,804	50,824	53,526
Net worth	34,607	45,678	48,440	51,460	54,163
Debt	15,191	5,498	3,815	2,190	1,690
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	139	152	188	202	217
Total liabilities	49,936	51,328	52,444	53,852	56,070
Fixed Asset	46,771	46,711	46,793	46,779	46,780
Investments	1,104	0	270	270	270
Other Non-current Assets	1,352	1,470	1,511	1,524	1,537
Net Working Capital	-115	619	1,746	391	421
Inventories	2,923	3,647	3,616	3,943	4,410
Sundry debtors	1,182	943	1,423	1,585	1,773
Loans and Advances	328	186	210	231	254
Sundry creditors	5,045	4,386	3,643	5,459	6,107
Other current liabilities	768	767	617	679	758
Cash & equivalents	824	2,528	2,123	4,889	7,062
Total Assets	49,936	51,328	52,444	53,852	56,070

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	17,668	18,667	20,091	22,139	24,766
Operating profit	3,211	3,444	3,448	4,115	4,798
Depreciation	264	252	236	290	299
Interest expense	1,399	838	255	175	135
Other income	107	89	104	125	150
Profit before tax	1,655	2,443	3,060	3,775	4,514
Taxes	(205)	(65)	(29)	-	1,136
Minorities	-	-	-	-	-
Adj. PAT	1,859	2,509	3,089	3,775	3,378
Exceptional loss	442	1,321	1,321	-	-
Net profit	1,417	1,187	1,767	3,775	3,378

Source: Company, YES Sec

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
PBIT	3,054	3,281	3,315	3,950	4,649
Depreciation	264	252	236	290	299
Tax paid	205	65	29	-	(1,136)
Working capital Δ	547	(735)	(1,127)	1,355	(29)
Other operating items					
Operating cashflow	4,069	2,864	2,453	5,594	3,782
Capital expenditure	(1,257)	(193)	(318)	(275)	(300)
Free cash flow	2,812	2,671	2,135	5,319	3,482
Equity raised	(385)	10,203	1,313	-	-
Investments	(643)	1,104	(270)	-	-
Debt financing/disposal	(502)	(9,693)	(1,683)	(1,625)	(500)
Interest Paid	(1,399)	(838)	(255)	(175)	(135)
Dividends paid	(288)	(318)	(318)	(755)	(675)
Other items	(413)	(1,425)	(1,326)	-	-
Net Δ in cash	(819)	1,703	(404)	2,765	2,173

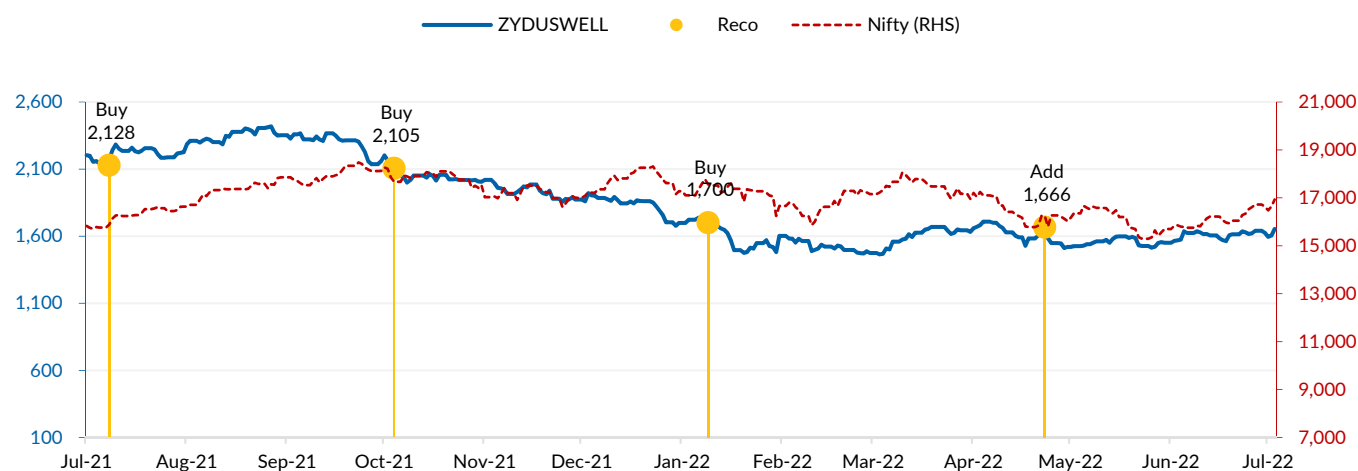
Exhibit 13: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
Growth matrix (%)					
Revenue growth	109.6	5.7	7.6	10.2	11.9
Op profit growth	73.7	7.3	0.1	19.4	16.6
EBIT growth	44.6	7.5	1.0	19.1	17.7
Net profit growth	3.5	34.9	23.1	22.2	(10.5)
Profitability ratios (%)					
OPM	18.2	18.4	17.2	18.6	19.4
EBIT margin	17.3	17.6	16.5	17.8	18.8
Net profit margin	10.5	13.4	15.4	17.0	13.6
RoCE	6.1	6.5	6.4	7.5	8.5
RoNW	5.4	6.2	6.6	7.6	6.4
RoA	3.4	4.5	5.4	6.4	5.5
Per share ratios					
EPS	32.2	39.4	48.5	59.3	53.1
Dividend per share	5.0	5.0	5.0	11.9	10.6
Cash EPS	36.8	43.4	52.3	63.9	57.8
Book value per share	600.2	717.5	761.3	808.7	851.2
Valuation ratios					
P/E	50.2	41.1	33.3	27.3	30.5

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
P/CEPS	43.9	37.3	31.0	25.3	28.0
P/B	2.7	2.3	2.1	2.0	1.9
EV/EBIDTA	33.5	30.8	30.4	24.4	20.3
Payout (%)					
Dividend payout	15.5	12.7	10.3	20.0	20.0
Tax payout	(12.4)	(2.7)	(0.9)	-	25.2
Liquidity ratios					
Debtor days	24	18	26	26	26
Inventory days	60	71	66	65	65
Creditor days	104	86	66	90	90

Source: Company, YES Sec

Recommendation Tracker



Source: Company, YES Sec – Research

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