

## RESEARCH

### BOB Economics Research | Monsoon Update

Monsoon and sowing progress

### Zydus Wellness | Target: Rs 2,185 | +35% | BUY

Management meet takeaways – Primed for growth

## SUMMARY

### India Economics: Monsoon Update

For the cumulative period, South West Monsoon is 9% above LPA as of 24 Aug 2022. Out of 36 subdivisions, 6 are in the deficient zone during this period along with 7 states (Uttar Pradesh, Bihar, and Jharkhand amongst others). Moreover, West Bengal has begun to receive normal rains and is a positive sign amidst dip in sowing activity. However, a large part of sowing has already been completed and hence needs to be monitored. Overall sown area of Kharif crops continues to lag and has declined by 2.5% compared to last year. Sown area of rice (8.3%) and pulses (5.3%) is much lower, in comparison with last year and needs to be watched.

[Click here for the full report.](#)

### Zydus Wellness

- Product innovation, distribution expansion and international footprint expected to aid brisk PAT CAGR of 20% over FY22-FY24, in our view
- Portfolio of leading wellness brands (Sugar Free, Everyuth, Glucon-D, Nycil, Nutralite) and low market penetration rates offer long growth runway
- Retain BUY with TP of Rs 2,185 led by product innovation, distribution expansion and strong brand equity

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### Daily macro indicators

Indicator	23-Aug	24-Aug	Chg (%)
US 10Y yield (%)	3.05	3.1	6bps
India 10Y yield (%)	7.28	7.29	1bps
USD/INR	79.86	79.82	0.1
Brent Crude (US\$/bbl)	100.2	101.2	1.0
Dow	32,910	32,969	0.2
Hang Seng	19,503	19,269	(1.2)
Sensex	59,031	59,085	0.1
India FII (US\$ mn)	22-Aug	23-Aug	Chg (\$ mn)
FII-D	9.8	401.7	391.9
FII-E	(43.4)	132.4	175.8

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

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## MONSOON UPDATE

25 August 2022

### Monsoon and sowing progress

For the cumulative period, South West Monsoon is 9% above LPA as of 24 Aug 2022. Out of 36 subdivisions, 6 are in the deficient zone during this period along with 7 states (Uttar Pradesh, Bihar, and Jharkhand amongst others). Moreover, West Bengal has begun to receive normal rains and is a positive sign amidst dip in sowing activity. However, a large part of sowing has already been completed and hence needs to be monitored. Overall sown area of Kharif crops continues to lag and has declined by 2.5% compared to last year. Sown area of rice (8.3%) and pulses (5.3%) is much lower, in comparison with last year and needs to be watched.

**Jahnvi Prabhakar**  
Economist

### Where does Kharif sowing stand?

For the week ended 19th Aug 2022, overall kharif sown area has fallen by 2.5% compared with last year. Sown area of rice and pulses have declined by 8.3% and 5.3% respectively. Within pulses, Arhar (7.2%), Urad (5.1%) and Moong (4.6%) have registered a significant drop in acreage. Area sown for oilseeds too (0.9%) continues to remain low compared with last year levels. On the other hand, sowing area of cotton (6.7%) and sugarcane (1.5%) have registered an improvement.

**Table 1: Kharif Sowing**

	Area sown in 2022-23 (mn ha)	Area sown in 2021-22 (mn ha)	Growth (YoY %)
Foodgrains	64.2	67.5	(4.8)
Cereals	51.6	54.2	(4.7)
Rice	34.4	37.5	(8.3)
Pulses	12.6	13.3	(5.3)
Oilseeds	18.4	18.6	(0.9)
Cotton	12.4	11.7	6.7
Sugarcane	5.5	5.5	1.5
Jute and Mesta	0.7	0.7	0
Total	101.3	103.9	(2.5)

Source: CEIC, Bank of Baroda | \*Data as of 19 Aug 2022.

### Monsoon:

For the period 1 Jun 2022 to 23 Aug 2022, South West Monsoon is 9% above LPA compared with last year.

- For Fig 1, Eastern belt of the country with states like Uttar Pradesh, Bihar, Jharkhand, and Delhi continue to lag in terms of much lower rains in these regions. Nagaland and Manipur too are in the deficient zone.



**BUY****TP: Rs 2,185 | ▲ 35%****ZYDUS WELLNESS**

Consumer Staples

25 August 2022

## Management meet takeaways – Primed for growth

- Product innovation, distribution expansion and international footprint expected to aid brisk PAT CAGR of 20% over FY22-FY24, in our view
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We interacted with ZYWL's CFO Umesh Parikh to gain a perspective on the company's growth prospects and sector outlook. Key takeaways:

**Brand can grow in double digits:** The average penetration level of ZYWL's portfolio brands stands at ~20% (12-24% across categories), signifying higher growth headroom versus its FMCG peers. Theoretically, an increase in market penetration from modest levels is one of the levers for sustained, long-term category growth – reflected in the near-double-digit uptick in these categories over the years. The company has identified white spaces in the market and has the R&D backbone to launch new variants and extensions. Launches (last 36 months) contribute ~3% of revenue which management expects to rise to ~5% in two years.

**Distribution expansion:** ZYWL aims to widen direct distribution coverage from 0.6mn to ~1mn by FY25. Growth in modern trade and e-commerce channels are likely to further boost sales.

**Sitarganj plant to yield cost savings:** The company incurred one-off expenses of Rs 29mn on account of cessation of Sitarganj (Uttarakhand) plant operations in Q1FY23 to maintain a cleaner environment. ZYWL expects to incur some more one-off expenses in Q2 towards employee and transfer-related costs even as savings should far outweigh these costs and remain recurring in nature.

**Growth drivers:** Per management, growth drivers include operating leverage as the topline grows, potential reduction in distributor margin, locking in of RM prices as they turn favourable, cost savings from Sitarganj plant closure, and other cost controls.

**Strong growth visibility; retain BUY:** ZYWL is trading at 23x FY24E EPS. We retain BUY with a TP of Rs 2,185 (~31x FY24E EPS) on the back of new launches, increasing distribution strength, a broader presence through existing brands, ability to cater to white spaces, debt reduction measures, robust FCF generation, superior execution and strong gross margins enabling higher brand-building spends.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,614
Market cap	US\$
Free float	35%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 2,477/Rs 1,430
Promoter/FPI/DII	65%/3%/25%

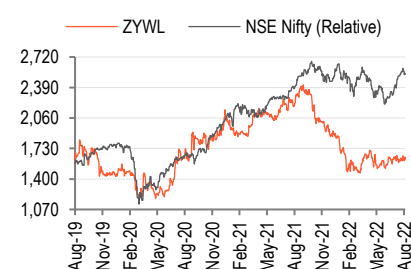
Source: NSE | Price as of 25 Aug 2022

## Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	20,091	22,045	24,534
EBITDA (Rs mn)	3,448	4,056	4,711
Adj. net profit (Rs mn)	3,098	3,657	4,442
Adj. EPS (Rs)	48.4	57.4	69.5
Consensus EPS (Rs)	48.4	56.1	69.3
Adj. ROAE (%)	5.9	6.9	7.8
Adj. P/E (x)	33.3	28.1	23.2
EV/EBITDA (x)	32.4	26.0	21.8
Adj. EPS growth (%)	(19.3)	18.0	21.2

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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