

RESEARCH
Zyduz Wellness | Target: Rs 2,185 | +39% | BUY

In a sweet spot !!!

SUMMARY
Zyduz Wellness

- Accelerated launch of innovative products, growing international footprint, and expanding customer base augur well for the company
- Leading niche wellness brands (Sugar Free, Everyuth, Glucon-D, Nycil) and low market penetration rates offer long-term growth opportunity
- Retain BUY with TP of Rs 2,185 as we like company's focus on distribution expansion and growth longevity with strong positioning

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Daily macro indicators

Indicator	27-Jun	28-Jun	Chg (%)
US 10Y yield (%)	3.20	3.17	(3bps)
India 10Y yield (%)	7.41	7.47	6bps
USD/INR	78.35	78.77	(0.5)
Brent Crude (US\$/bbl)	115.1	118	2.5
Dow	31,438	30,947	(1.6)
Hang Seng	22,230	22,419	0.9
Sensex	53,161	53,177	0.0
India FII (US\$ mn)	24-Jun	27-Jun	Chg (\$ mn)
FII-D	(35.6)	(120.4)	(84.8)
FII-E	(269.2)	(139.5)	129.7

Source: Bank of Baroda Economics Research

BOBCAPS Research

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BUY

TP: Rs 2,185 | ▲ 39%

ZYDUS WELLNESS

Consumer Staples

29 June 2022

In a sweet spot !!!

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We interacted with ZYWL CFO, Umesh Parikh to gain a perspective on the company's growth prospects and sector outlook. Key takeaways:

Brand can grow double-digit: Average penetration level of the combined portfolio brands stands at ~20% (12-24% across categories) signifies higher growth headroom versus its FMCG peers. Theoretically, increase in penetration is one of the growth planks for a category's growth longevity. Further, management's quest towards improving brand awareness (ad spends at ~14% of revenue) and four-five new product/variants launches will not only improve penetration but also support double-digit growth in the foreseeable future.

Aggressive distribution expansion: ZYWL aims to widen direct distribution coverage from 2.25mn currently to 3.5mn-4mn by FY25 and direct reach from 0.55mn to about 1mn. We believe that restructuring of the distribution channel will continue to yield benefits as consumer sentiments improve and penetration levels rise across categories in which the company operates, especially considering its market-leading position in five of its six segments.

Strong outlook for international business: ZYWL's Sugar Free and Complian brands constitute 93% of international business. The company has entered new markets such as Hong Kong, Lebanon, Zimbabwe, Muscat, Ethiopia and Australia in FY22. Management has guided for high-double-digit growth in the international business, likely crossing Rs 1bn in revenue in FY23. The target is to have 8-10% of revenue from the business in the next 4-5 years from ~4% in FY22.

Positive surprise awaited; retain BUY: ZYWL is trading at ~23x FY24E EPS. We retain BUY and our TP of Rs 2,185, set at ~31x FY24E EPS on the back of new launches, increasing distribution strength, a broader presence through existing brands, its ability to cater to white spaces, and a strong gross margin which gives it the leeway to spend more on brand building. We are also positive on ZYWL's debt reduction measures, faster FCF generation and superior execution.

Key changes

Target	Rating
◀ ▶	◀ ▶

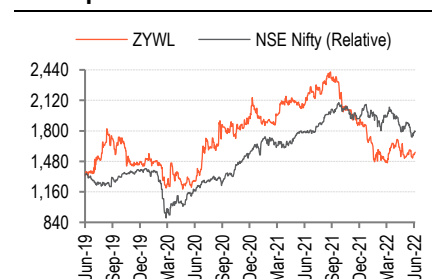
Ticker/Price	ZYWL IN/Rs 1,575
Market cap	US\$ 1.3bn
Free float	35%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 2,477/Rs 1,430
Promoter/FPI/DII	65%/3%/25%

Source: NSE | Price as of 29 Jun 2022

Key financials

Y/E 31 Mar	FY22P	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)	48.8	64.3	74.0
Adj. ROAE (%)	5.9	6.9	7.8
Adj. P/E (x)	32.5	27.4	22.7
EV/EBITDA (x)	31.7	25.4	21.3
Adj. EPS growth (%)	(19.3)	18.0	21.2

Source: Company, Bloomberg, BOBCAPS Research | P - Provisional

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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