

HOLD

TP: Rs 2,149 | ▲ 5%

ZYDUS WELLNESS

Consumer Staples

31 July 2025

Underlying business is showing improvement

- Compared to cons., sales were 1% lower, while EBITDA was 5% lower. Unseasonal rains and a shorter summer impacted sales and margins
- Naturelle is growing faster than expected with 25+% sales growth while the unseasonal business is also holding up better than expected
- We need to see evidence of operating leverage. Our margin forecasts of 15-16% are below the ~18% guidance over the medium term

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1QFY26 result summary: Zydus Wellness reported 1QFY26 sales of Rs8.6bn, +2% YoY, with flat EBITDA as margins contracted 40bps to 18.1%. Sales came in 1% below consensus, while EBITDA was 5% lower.

Sales and cost trends: Adverse sales impact from unseasonal rains and shorter summer was offset by double digit growth in the non-seasonal portfolio. Food & Nutrition sales +2%, Personal Care +4%. MAT to June market share of Complian was -30bps while Glucon D was -80bps. In *everyuth*, facial cleansing +120bps, scrub +250bps while peel off was -100bps. Naturelle grew faster than expected with 25+% sales growth run rate. Cost pressures continued on edible oils and Dextrose while Sucralose and Stevia remained favourable with Milk remaining flat. Pricing, strategic hedges and efficiencies helped offset inflation.

Need more evidence on operating leverage: Zydus reiterated its target of improving EBITDA margins to 18%. Operating leverage, efficiencies and mix are the key drivers. We are yet to see evidence of operating leverage on employee expenses or A&P. Commodity costs remain volatile and lack of visibility on operating leverage keeps us cautious. We forecast 15-16% margins in FY27-FY28.

Our view: Zydus Wellness expects to grow sales in double digits with margins reaching 18% over the medium term. We forecast 10% sales CAGR over FY25-FY28 driven by improving performance in the non-seasonal business and high growth in the Naturell business. However, our margin forecasts are lower vs guidance as we are yet to see sustained evidence of operating leverage in the business. While Naturell is faster growth vs average, it is margin dilutive. We value Zydus at 29x, in line with its 5Y historical average P/E on 12M to Jun'27 EPS. Our TP changes to Rs2,149 from Rs 2,023. Share price return of 5% – HOLD

(Rs mn)	Actual			Reported vs (%)	
	1Q25	1Q26	YoY (%)	BoB	Cons.
Sales	8,410	8,609	2.4	(3.2)	(1.2)
EBITDA	1,553	1,556	0.2	(3.0)	(5.4)
EBITDA margin (%)	18.5	18.1	(39bps)	3bps	(80bps)

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ZYWL IN/Rs 2,055
Market cap	US\$ 1.5bn
Free float	21%
3M ADV	US\$ 2.1mn
52wk high/low	Rs 2,425/Rs 1,493
Promoter/FPI/DII	69%/3%/28%

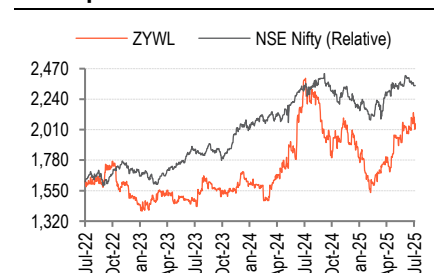
Source: NSE | Price as of 30 Jul 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	27,089	29,651	33,210
EBITDA (Rs mn)	3,797	4,264	5,122
Adj. net profit (Rs mn)	3,410	3,854	4,670
Adj. EPS (Rs)	53.6	61.1	75.2
Consensus EPS (Rs)	53.6	68.8	79.0
Adj. ROAE (%)	6.2	6.6	7.5
Adj. P/E (x)	38.3	33.6	27.3
EV/EBITDA (x)	35.1	31.1	25.2
Adj. EPS growth (%)	21.3	13.0	21.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



1QFY26 result review

Earnings revisions

We reduce our sales forecasts by 2% in FY26 to account for weaker seasonal performance in the June 2025 quarter. Our sales for FY26 are 2% higher as the underlying business is performing better than expected and Naturell is also ahead of Zydus's internal expectations. Our EBITDA revisions are at -2% to 7% for FY26 and FY27. Again, the underlying business performance is reasonable while input costs are also coming down. Our gross margin is higher in both FY26 and FY27.

Fig 1 – Zydus Wellness earnings revisions

(Rs mn)	Actual	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY25	FY26	FY26	Change	FY27	FY27	Change	FY28	FY28	Change
Sales	27,089	29,651	30,395	(2.4)	33,210	32,522	2.1	35,767	n/a	n/a
EBITDA	3,797	4,264	4,360	(2.2)	5,122	4,788	7.0	5,680	n/a	n/a
EBITDA Margin (%)	14.0	14.4	14.3	4bps	15.4	14.7	70bps	15.9	n/a	n/a
Adj. EPS	53.62	61.07	62.03	(1.5)	75.19	67.99	10.6	71.34	n/a	n/a

Source: Company, Bloomberg, BOBCAPS Research

Valuation

Zydus Wellness expects to grow sales in double digits with margins reaching 18% over the medium term. We forecast 10% sales CAGR over FY25-FY28 driven by improving performance in the non-seasonal business and high growth in the Naturell business. However, our margin forecasts are lower vs guidance as we are yet to see sustained evidence of operating leverage in the business. While Naturell is faster growth vs average, it is margin dilutive. We value Zydus at 29x, in line with its 5Y historical average P/E on 12M to Jun'27 EPS. Our TP changes to Rs2,149 from Rs 2,023. Share price return of 5% – HOLD

Key Risks

Key upside/downside risks to our estimates:

- market share gains/losses in health food drinks
- faster/delayed recovery in rural markets
- inventory shortage/excess in traditional trade leading to stock adjustment by distributors

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Total revenue	22,548	23,278	27,089	29,651	33,210
EBITDA	3,372	3,082	3,797	4,264	5,122
Depreciation	250	238	284	318	294
EBIT	3,121	2,844	3,513	3,946	4,828
Net interest inc./(exp.)	(161)	(240)	(120)	(81)	(75)
Other inc./(exp.)	49	139	136	163	378
Exceptional items	101	142	(59)	0	0
EBT	3,009	2,743	3,529	4,028	5,131
Income taxes	(195)	(68)	119	174	462
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,104	2,669	3,469	3,854	4,670
Adjustments	101	142	(59)	0	0
Adjusted net profit	3,204	2,811	3,410	3,854	4,670

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	3,133	3,629	4,288	3,823	4,181
Other current liabilities	866	825	1,317	1,317	1,317
Provisions	133	159	212	212	212
Debt funds	2,925	3,240	1,850	1,850	1,850
Other liabilities	47	56	36	36	36
Equity capital	636	636	636	636	636
Reserves & surplus	50,590	52,939	56,080	59,616	63,853
Shareholders' fund	51,227	53,575	56,716	60,252	64,489
Total liab. and equities	58,331	61,484	64,419	67,490	72,085
Cash and cash eq.	370	800	667	6,114	9,894
Accounts receivables	2,078	2,833	3,670	2,124	2,335
Inventories	4,575	4,676	5,175	4,219	4,618
Other current assets	2,062	4,191	1,530	1,530	1,530
Investments	0	0	0	0	0
Net fixed assets	2,833	2,564	3,055	3,182	3,386
CWIP	0	0	0	0	0
Intangible assets	44,620	44,608	48,345	48,345	48,345
Deferred tax assets, net	0	0	0	0	0
Other assets	1,792	1,812	1,977	1,977	1,977
Total assets	58,331	61,484	64,419	67,490	72,085

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash flow from operations	917	2,464	3,800	6,162	4,487
Capital expenditures	(450)	(285)	(663)	(445)	(498)
Change in investments	(437)	(39)	(1,614)	0	0
Other investing cash flows	39	131	41	129	299
Cash flow from investing	(848)	(193)	(2,236)	(316)	(199)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(890)	315	(1,390)	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(319)	(319)	(318)	(318)	(432)
Other financing cash flows	(176)	(253)	(155)	(81)	(75)
Cash flow from financing	(1,385)	(257)	(1,863)	(399)	(508)
Chg in cash & cash eq.	(1,849)	3,598	(465)	5,447	3,781
Closing cash & cash eq.	370	800	667	6,114	9,894

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	48.8	41.9	54.5	61.1	75.2
Adjusted EPS	50.4	44.2	53.6	61.1	75.2
Dividend per share	5.0	5.0	5.0	6.9	7.2
Book value per share	805.1	842.4	891.8	954.9	1,038.5

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	5.9	5.7	4.9	4.5	3.9
EV/EBITDA	39.7	43.2	35.1	31.1	25.2
Adjusted P/E	40.8	46.5	38.3	33.6	27.3
P/BV	2.6	2.4	2.3	2.2	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	106.5	102.5	96.6	95.7	91.0
Interest burden (PBT/EBIT)	96.4	96.4	100.5	102.1	106.3
EBIT margin (EBIT/Revenue)	13.8	12.2	13.0	13.3	14.5
Asset turnover (Rev./Avg TA)	39.1	38.9	43.0	45.0	47.6
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	6.4	5.4	6.2	6.6	7.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Revenue	12.2	3.2	16.4	9.5	12.0
EBITDA	(2.2)	(8.6)	23.2	12.3	20.1
Adjusted EPS	3.7	(12.3)	21.3	13.0	21.2
Profitability & Return ratios (%)					
EBITDA margin	15.0	13.2	14.0	14.4	15.4
EBIT margin	13.8	12.2	13.0	13.3	14.5
Adjusted profit margin	14.2	12.1	12.6	13.0	14.1
Adjusted ROAE	6.4	5.4	6.2	6.6	7.5
ROCE	6.1	5.3	6.2	6.5	7.5

Working capital days (days)

Receivables	28	39	44	36	25
Inventory	130	148	141	123	105
Payables	108	108	113	106	95

Ratios (x)

Gross asset turnover	4.6	4.9	5.2	5.3	5.4
Current ratio	1.3	1.6	1.5	2.0	2.5
Net interest coverage ratio	19.4	11.9	29.3	48.4	64.1
Adjusted debt/equity	0.1	0.1	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

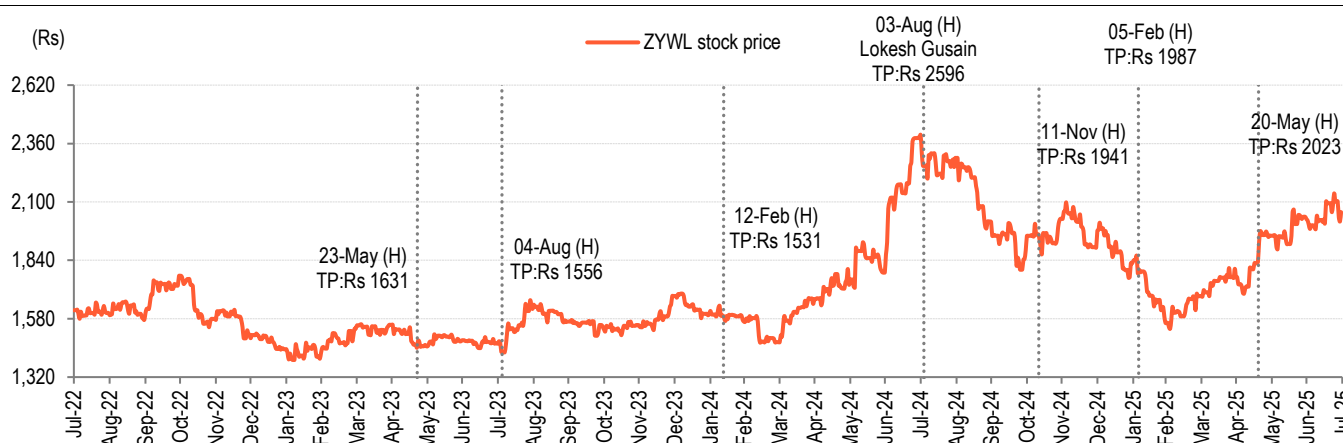
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): ZYDUS WELLNESS (ZYWL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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