

HOLD

TP: Rs 1,556 | ▲ 0%

ZYDUS WELLNESS

Consumer Staples

07 November 2023

Subdued growth in a seasonally weak quarter

- Flattish volume growth in Q2 owing to muted performance in glucose and sweetener categories
- Gross margin expands but EBITDA margin remains unchanged YoY at 3.8% owing to higher overheads
- Revival in HFD, strong international sales and gross margin expansion bode well; maintain HOLD, TP Rs 1,556 (unchanged)

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Soft performance amid seasonal weakness: ZYWL reported only 2% YoY revenue growth to Rs 4.4bn in Q2FY24 owing to uneven rain distribution that affected offtake during the quarter. Volume growth was flat despite a stable operating environment, as demand revival remains sluggish. The company did maintain leadership in four brands – *Sugar Free*, *Glucon-D*, *Everyuth* (scrub and peel-off face mask), and *Nycil*. It also continues to strengthen sales on new-age platforms with the revenue contribution from e-commerce rising to 10% from 8% in Q2FY23.

Gross margin improves on lower input cost: Gross margin expanded 190bps YoY to 45.2% as key commodity prices continued to moderate sequentially during Q2 and the benefits of calibrated price hikes kicked in. EBITDA margin, however, was unchanged YoY at 3.8% as other expenses increased 11% YoY and employee cost rose 11% during the quarter. Reported PAT fell 30% YoY to Rs 59mn due to a deferred tax liability on non-cash items.

International markets continue to perform amid headwinds: ZYWL reported strong double-digit growth in international markets during H1FY24, barring Nigeria business which continued to suffer from currency devaluation. The company is targeting 8-10% revenue from international markets in the next 4-5 years. *Sugar Free* and *Complan* currently constitute ~90% of overseas business and the top five markets constitute ~80% revenue share. The company expects to launch a range of new products in Q3FY24 in its *Sugar Free D'lite* portfolio in international markets.

Maintain HOLD: ZYWL has been able to maintain leadership in key categories despite macro headwinds, anchored by strong growth in the health food drink (HFD) and personal care businesses. Gross margin improved during the quarter though higher employee and other expenses kept operating margin flat. Considering the company's commitment to broaden the portfolio and expand margins over the near-to-mid-term, we retain our HOLD rating with an unchanged TP of Rs 1,556. We continue to value the stock at 22x FY25E EPS – in line with the 10Y average multiple.

Key changes

| Target | Rating |
|--------|--------|
| ◀ ▶ | ◀ ▶ |

| | |
|------------------|-------------------|
| Ticker/Price | ZYWL IN/Rs 1,556 |
| Market cap | US\$ 1.2bn |
| Free float | 21% |
| 3M ADV | US\$ 1.2mn |
| 52wk high/low | Rs 1,790/Rs 1,370 |
| Promoter/FPI/DII | 69%/3%/28% |

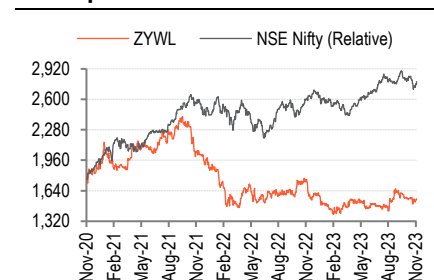
Source: NSE | Price as of 6 Nov 2023

Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|-------------------------|--------|--------|--------|
| Total revenue (Rs mn) | 22,549 | 24,090 | 26,996 |
| EBITDA (Rs mn) | 3,373 | 3,564 | 4,801 |
| Adj. net profit (Rs mn) | 3,205 | 3,392 | 4,503 |
| Adj. EPS (Rs) | 50.4 | 53.3 | 70.8 |
| Consensus EPS (Rs) | 50.4 | 60.2 | 71.0 |
| Adj. ROAE (%) | 6.1 | 6.3 | 7.9 |
| Adj. P/E (x) | 30.9 | 29.2 | 22.0 |
| EV/EBITDA (x) | 29.3 | 27.8 | 20.6 |
| Adj. EPS growth (%) | 0.5 | 9.2 | 32.8 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

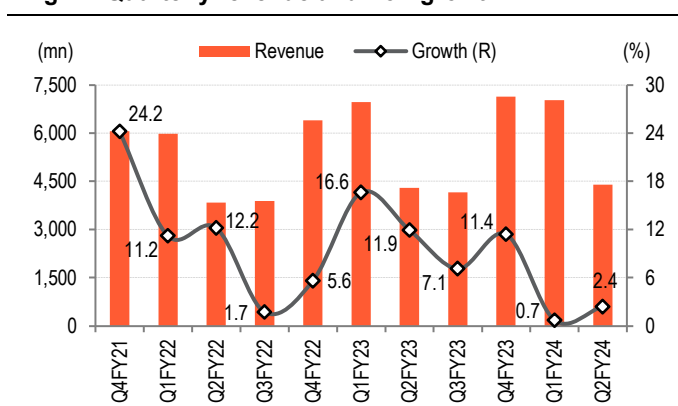


Fig 1 – Financial performance

| (Rs mn) | Q2FY24 | Q1FY24 | Q2FY23 | QoQ (%) | YoY (%) | Estimates | Variance (%) |
|---------------------|--------|--------|--------|------------|---------|-----------|--------------|
| Revenue | 4,399 | 7,021 | 4,295 | (37.3) | 2.4 | 4,664 | (5.7) |
| EBITDA | 168 | 1,165 | 163 | (85.6) | 3.1 | 280 | (40.0) |
| Adj. PAT | 59.0 | 1,104 | 85 | (94.7) | (30.6) | 198 | (70.2) |
| Gross Margin (%) | 45.2 | 52.6 | 43.3 | (740bps) | 190bps | 44.5 | 70bps |
| EBITDA Margin (%) | 3.8 | 16.6 | 3.8 | (1,280bps) | (0bps) | 3.8 | 0bps |
| Adj. PAT Margin (%) | 1.3 | 15.7 | 2.0 | (1,440bps) | (70bps) | 4.2 | (290bps) |

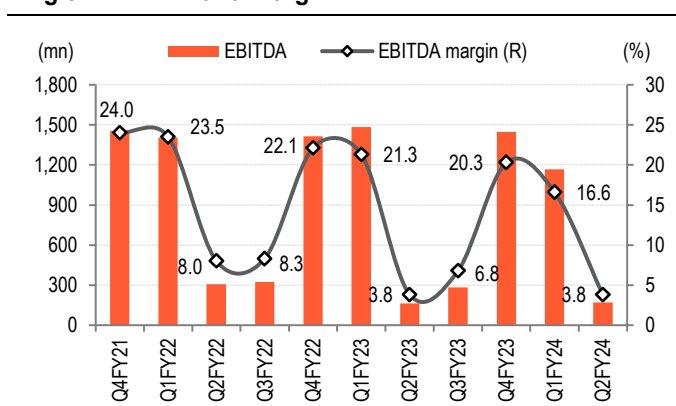
Source: Company, BOBCAPS Research

Fig 2 – Quarterly revenue and YoY growth



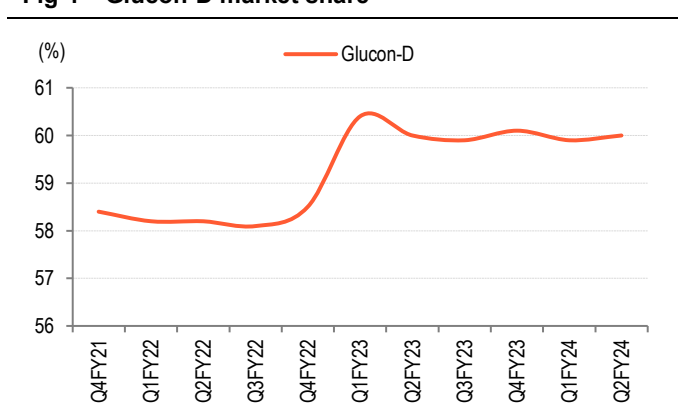
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



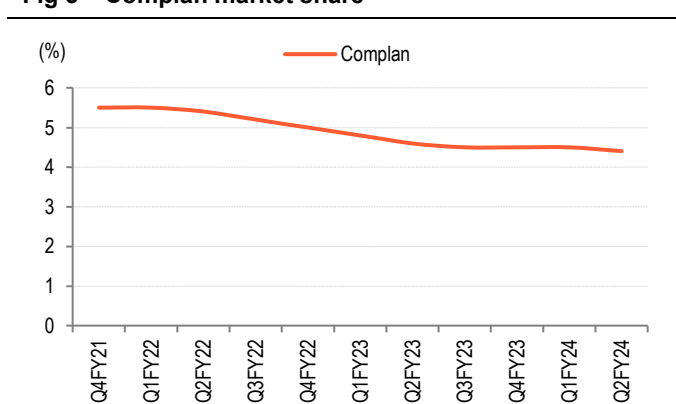
Source: Company, BOBCAPS Research

Fig 4 – Glucon-D market share



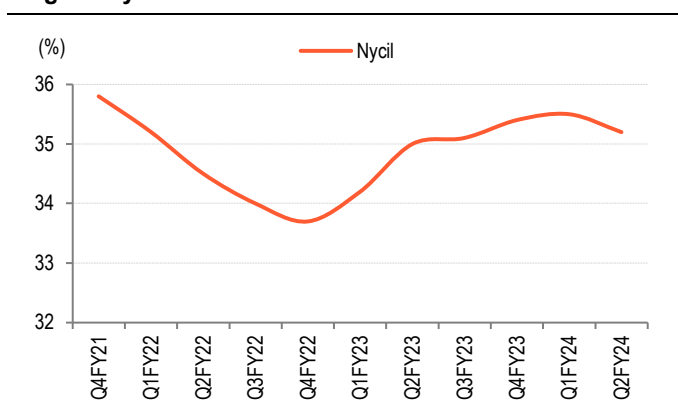
Source: Company, BOBCAPS Research

Fig 5 – Complan market share



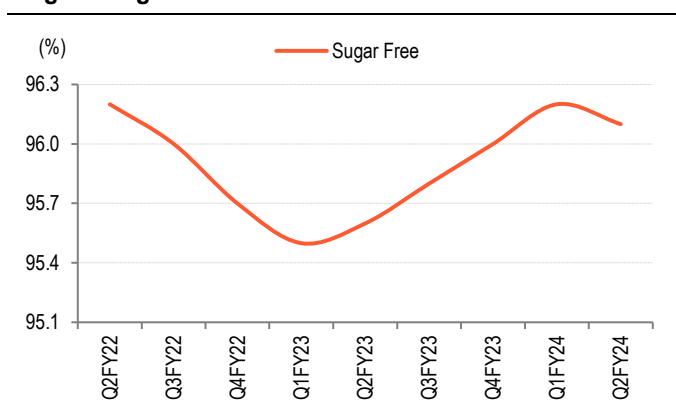
Source: Company, BOBCAPS Research

Fig 6 – Nycil market share



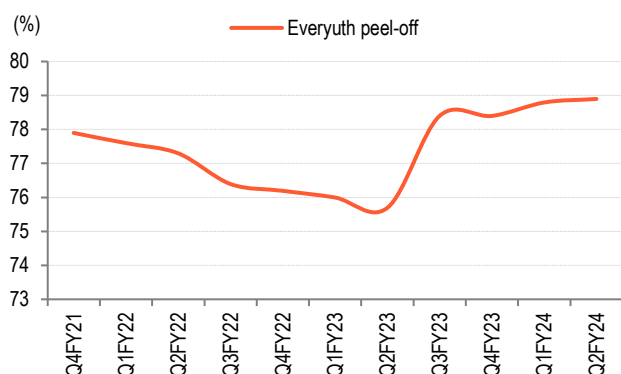
Source: Company, BOBCAPS Research

Fig 7 – Sugar Free market share



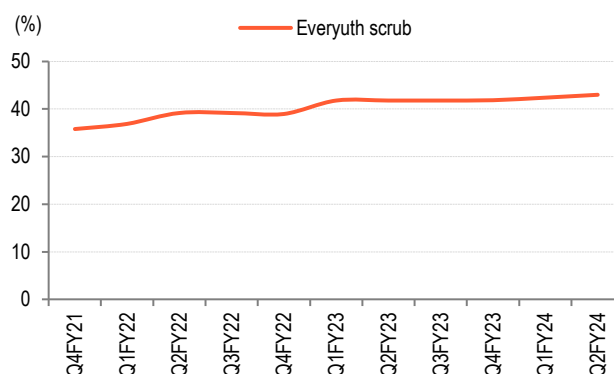
Source: Company, BOBCAPS Research

Fig 8 – Everyuth peel-off market share



Source: Company, BOBCAPS Research

Fig 9 – Everyuth scrub market share



Source: Company, BOBCAPS Research

Earnings call highlights

- ZYWL's FMCG segment witnessed a mixed quarter in terms of demand recovery. Urban markets continued to grow but rural markets lagged due to rising food prices and uneven weather patterns across the country.
- Management is hoping for a stronger revival in demand during the festive season and is working to sustain the gross margin recovery. The company expects double-digit revenue growth and EBITDA margin expansion to 17-18% in 2-3 years.
[moved para up]
- During Q2FY24, ZYWL's personal care segment registered high-double-digit revenue growth YoY aided by the *Nycil* brand due to hot and humid weather in most parts of the country. Growth was further accentuated by a strong performance in *Everyuth*.
- The company's *Nutralite* brand also posted a strong volume uptick during the quarter and *Complan* clocked a revival in line with the HFD industry, while the food & nutrition segment was muted amid litigation in *Sugarlite* and sectoral headwinds.
- The HFD category grew 4.3% YoY (MAT basis) in Q2 and ZYWL indicated that *Complan* registered volume offtake ahead of the category with market share at 4.4%.
- The company continues to drive consumption of the new mango variant of *Glucon-D*. The glucose powder category has risen by 1% YoY MAT. Glucon-D remains the leader with 60.1% market share.
- In the sweetener segment, ZYWL's *Sugar Free* brand continued to see good demand in Q2 and retained market share of 96.1%. However, the ongoing trademark litigation on *Sugarlite* together with sectoral headwinds led to muted growth in the company's food & nutrition segment.
- In personal care, *Everyuth* fared well in Q2. The face scrub category grew 6.2% YoY MAT, and Everyuth scrub maintained its leadership with market share of 43.4%, up 162bps YoY. The peel-off category declined 0.5% YoY MAT; *Everyuth* peel-off maintained its leading market share of 78.9%, up 75bps YoY.

- The prickly heat powder category declined by 2.1% YoY MAT, but *Nycil* grew in double digits and remained in the lead with market share of 35.2%, up 19bps YoY.
- In dairy and spreads, *Nutralite* registered strong double-digit volume growth, aided by institutional sales, though value growth was suppressed by a reduction in market-driven prices. With a softening of milk prices, the company expects margin expansion in the category.

Valuation methodology

ZYWL has been able to maintain leadership in key categories despite macro headwinds, anchored by strong growth in the HFD and personal care businesses. Gross margin improved during the quarter while higher employee and other expenses kept operating margin flat.

Considering the company's commitment to broaden the portfolio and expand margins over the near-to-mid-term, we retain our HOLD rating with an unchanged TP of Rs 1,556. We continue to value the stock at 22x FY25E EPS – in line with the 10-year average multiple.

Key risks

Key upside risks to our estimates are:

- volume growth in key categories, and
- margin expansion.

Key downside risks are:

- market share loss in HFD, and
- delayed recovery in rural markets.

Sector recommendation snapshot

| Company | Ticker | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|--------------------------|-------------|----------------------|------------|-------------|--------|
| Britannia Industries | BRIT IN | 13.5 | 4,624 | 5,844 | BUY |
| Dabur India | DABUR IN | 11.6 | 538 | 669 | BUY |
| Godrej Consumer Products | GCPL IN | 12.8 | 1,025 | 1,159 | BUY |
| Hindustan Unilever | HUVR IN | 71.4 | 2,497 | 3,069 | BUY |
| ITC | ITC IN | 65.8 | 435 | 523 | BUY |
| Marico | MRCO IN | 8.4 | 534 | 646 | BUY |
| Nestle India | NEST IN | 28.5 | 24,290 | 28,260 | BUY |
| Tata Consumer Products | TATACONS IN | 10.4 | 919 | 1,038 | BUY |
| Zydus Wellness | ZYWL IN | 1.2 | 1,556 | 1,556 | HOLD |

Source: BOBCAPS Research, NSE | Price as of 6 Nov 2023

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Total revenue | 18,667 | 20,091 | 22,549 | 24,090 | 26,996 |
| EBITDA | 3,444 | 3,447 | 3,373 | 3,564 | 4,801 |
| Depreciation | 252 | 236 | 250 | 240 | 303 |
| EBIT | 3,192 | 3,211 | 3,122 | 3,324 | 4,497 |
| Net interest inc./(exp.) | 838 | 255 | 161 | 172 | 60 |
| Other inc./(exp.) | 89 | 104 | 49 | 97 | 65 |
| Exceptional items | 1,321 | 0 | 101 | 1 | 1 |
| EBT | 1,122 | 3,060 | 2,910 | 3,248 | 4,502 |
| Income taxes | (65) | (29) | (195) | (143) | 0 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 1,188 | 3,088 | 3,105 | 3,391 | 4,502 |
| Adjustments | 1,321 | 0 | 101 | 1 | 1 |
| Adjusted net profit | 2,509 | 3,088 | 3,205 | 3,392 | 4,503 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23A | FY24E | FY25E |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables | 4,386 | 3,643 | 3,133 | 3,270 | 3,525 |
| Other current liabilities | 470 | 345 | 386 | 412 | 462 |
| Provisions | 312 | 347 | 410 | 429 | 464 |
| Debt funds | 5,498 | 3,815 | 2,925 | 1,800 | 700 |
| Other liabilities | 321 | 333 | 250 | 263 | 289 |
| Equity capital | 636 | 636 | 636 | 636 | 636 |
| Reserves & surplus | 45,042 | 47,804 | 50,590 | 53,133 | 56,510 |
| Shareholders' fund | 45,678 | 48,440 | 51,227 | 53,770 | 57,146 |
| Total liab. and equities | 56,664 | 56,922 | 58,331 | 59,945 | 62,586 |
| Cash and cash eq. | 1,737 | 1,154 | 370 | 1,201 | 2,575 |
| Accounts receivables | 943 | 1,423 | 2,078 | 2,220 | 2,488 |
| Inventories | 3,647 | 3,616 | 4,575 | 4,775 | 5,147 |
| Other current assets | 2,142 | 1,673 | 1,356 | 1,447 | 1,620 |
| Investments | 0 | 270 | 700 | 700 | 700 |
| Net fixed assets | 1,996 | 2,445 | 2,704 | 2,942 | 3,173 |
| CWIP | 37 | 119 | 130 | 130 | 130 |
| Intangible assets | 44,678 | 44,655 | 44,620 | 44,620 | 44,620 |
| Deferred tax assets, net | 1,265 | 1,298 | 1,493 | 1,595 | 1,787 |
| Other assets | 219 | 268 | 300 | 316 | 346 |
| Total assets | 56,664 | 56,922 | 58,331 | 59,945 | 62,586 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY21A | FY22A | FY23A | FY24E | FY25E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash flow from operations | 2,866 | 2,409 | 930 | 3,320 | 4,352 |
| Capital expenditures | (197) | (754) | (450) | (478) | (535) |
| Change in investments | (19) | (205) | (413) | 0 | 0 |
| Other investing cash flows | 111 | 100 | 14 | (21) | (158) |
| Cash flow from investing | (104) | (860) | (848) | (499) | (693) |
| Equities issued/Others | 9,866 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | (9,693) | (1,683) | (890) | (1,125) | (1,100) |
| Interest expenses | (1,012) | (325) | (159) | (172) | (60) |
| Dividends paid | (2) | (319) | (319) | (848) | (1,125) |
| Other financing cash flows | (1,324) | (12) | (17) | 0 | 0 |
| Cash flow from financing | (2,164) | (2,338) | (1,385) | (2,145) | (2,285) |
| Chg in cash & cash eq. | 599 | (829) | (1,316) | 819 | 1,374 |
| Closing cash & cash eq. | 2,527 | 1,698 | 382 | 1,201 | 2,575 |

Per Share

| Y/E 31 Mar (Rs) | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 18.7 | 48.6 | 48.8 | 53.3 | 70.7 |
| Adjusted EPS | 39.4 | 48.6 | 50.4 | 53.3 | 70.8 |
| Dividend per share | 118.0 | 74.5 | 5.0 | 13.3 | 17.7 |
| Book value per share | 718.2 | 761.6 | 805.4 | 845.4 | 898.5 |

Valuations Ratios

| Y/E 31 Mar (x) | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 5.3 | 4.9 | 4.4 | 4.1 | 3.7 |
| EV/EBITDA | 28.7 | 28.7 | 29.3 | 27.8 | 20.6 |
| Adjusted P/E | 39.4 | 32.0 | 30.9 | 29.2 | 22.0 |
| P/BV | 2.2 | 2.0 | 1.9 | 1.8 | 1.7 |

DuPont Analysis

| Y/E 31 Mar (%) | FY21A | FY22A | FY23A | FY24E | FY25E |
|------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 105.8 | 100.9 | 106.7 | 104.4 | 100.0 |
| Interest burden (PBT/EBIT) | 37.2 | 96.2 | 99.4 | 102.0 | 100.1 |
| EBIT margin (EBIT/Revenue) | 17.1 | 16.0 | 13.8 | 13.8 | 16.7 |
| Asset turnover (Rev./Avg TA) | 32.9 | 35.3 | 38.7 | 40.2 | 43.1 |
| Leverage (Avg TA/Avg Equity) | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 |
| Adjusted ROAE | 2.6 | 6.4 | 6.1 | 6.3 | 7.9 |

Ratio Analysis

| Y/E 31 Mar | FY21A | FY22A | FY23A | FY24E | FY25E |
|-----------------------|--------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 5.7 | 7.6 | 12.2 | 6.8 | 12.1 |
| EBITDA | 17.0 | 0.1 | (2.2) | 5.7 | 34.7 |
| Adjusted EPS | (24.0) | 160.1 | 0.5 | 9.2 | 32.8 |

Profitability & Return ratios (%)

| | | | | | |
|------------------------|------|------|------|------|------|
| EBITDA margin | 18.4 | 17.2 | 15.0 | 14.8 | 17.8 |
| EBIT margin | 17.1 | 16.0 | 13.8 | 13.8 | 16.7 |
| Adjusted profit margin | 13.4 | 15.4 | 14.2 | 14.1 | 16.7 |
| Adjusted ROAE | 2.6 | 6.4 | 6.1 | 6.3 | 7.9 |
| ROCE | 6.2 | 6.1 | 5.8 | 6.0 | 7.8 |

Working capital days (days)

| | | | | | |
|-------------|-----|-----|-----|-----|-----|
| Receivables | 18 | 26 | 34 | 34 | 34 |
| Inventory | 158 | 135 | 146 | 146 | 146 |
| Payables | 189 | 136 | 100 | 100 | 100 |

Ratios (x)

| | | | | | |
|-----------------------------|-----|------|------|------|------|
| Gross asset turnover | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |
| Current ratio | 1.1 | 1.1 | 1.3 | 1.7 | 2.4 |
| Net interest coverage ratio | 3.8 | 12.6 | 19.4 | 19.3 | 75.4 |
| Adjusted debt/equity | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |

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

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BUY – Expected return >+15%

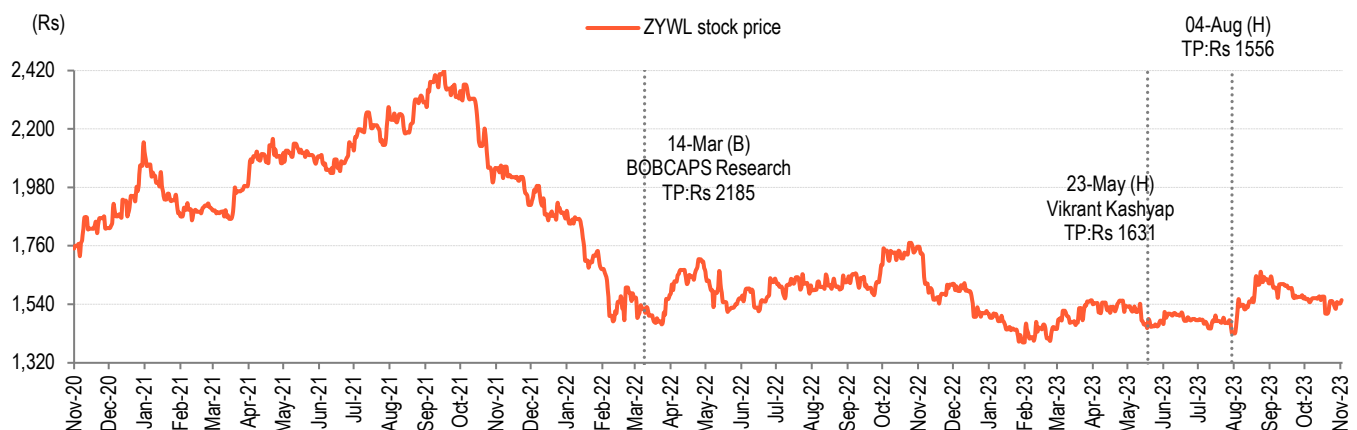
HOLD – Expected return from -6% to +15%

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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