

HOLD

TP: Rs 2,023 | ▲ 10%

ZYDUS WELLNESS

| Consumer Staples

| 20 May 2025

Broadly in line: Remaining margin focused

- Sales were +17% YoY and 2% above consensus. EBITDA was +17%; 1% lower with margins at 20.8%, 80bps below consensus
- We see downside risk to Zydus' margin guidance due to likely negative leverage on reinvestment cuts and margin dilution from Naturell
- An overt focus on margins by the category leader can potentially slow industry and Zydus' own sales growth. **HOLD**

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4QFY25 result summary: Zydus Wellness reported 4QFY25 sales of Rs9.1bn, +17% YoY, with EBITDA also +17% as margins marginally expanded 8bps to 20.8%. Sales came in 2% above consensus (6% above our estimate), while EBITDA was 1% lower vs both consensus and our estimates. Cost trends remained relatively unchanged vs 3Q, as pressure continued on edible oils and Dextrose while Sucralose and Stevia remained favourable. Milk turned favourable in 4Q. Pricing, strategic hedges and efficiencies helped offset inflation.

4QFY25 sales trends YoY: Food & Nutrition sales increased 15%. Personal Care sales +23%. MAT to December market share of Complian was down 21bps while Glucon D was down 81bps. Personal Care did better with market shares up 6bps to 320bps in the *everyuth* portfolio.

Flexible approach to margins: Zydus is focused on improving EBITDA margins to 17%-18%. We see downside risk on margin guidance as the company is being pragmatic on A&P spend. Adverse impact of A&P cuts on sales won't be immediate but can start to show towards FY26E end along with negative operating leverage.

Our view: Zydus Wellness continues to focus on margin gains and adjust business reinvestments to meet targets. Such an approach by the category leader can potentially slow the pace of category growth and Zydus' own sales growth. This also translates into negative operating leverage to ultimately hurt margins. While Naturell is faster growth vs average, it operates in mid-single digit margins. We value Zydus at 30x, in line with its 5Y historical average P/E on 12M to Mar'27 EPS. Our TP changes to Rs2,023 from Rs 1,987. Share price return of 10% – **HOLD**

Zydus 4QFY25 summary (Rs mn)	Actual			Reported vs (%)	
	4Q24	4Q25	YoY (%)	BoB	Cons.
Sales	7,826	9,131	16.7	5.9	2.4
EBITDA	1,622	1,900	17.1	(0.6)	(1.3)
EBITDA margin (%)	20.7	20.8	8bps	(136bps)	(78bps)

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,833
Market cap	US\$ 1.4bn
Free float	21%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 2,484/Rs 1,493
Promoter/FPI/DII	69%/3%/28%

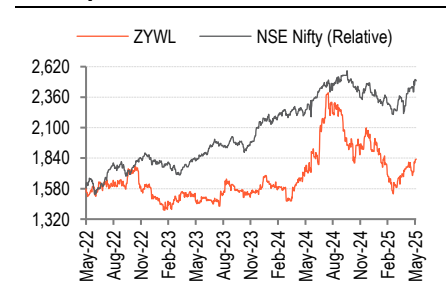
Source: NSE | Price as of 19 May 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	27,089	30,395	32,522
EBITDA (Rs mn)	3,797	4,360	4,788
Adj. net profit (Rs mn)	3,410	3,823	3,922
Adj. EPS (Rs)	53.6	62.0	68.0
Consensus EPS (Rs)	53.6	72.6	72.8
Adj. ROAE (%)	6.2	6.5	6.3
Adj. P/E (x)	34.2	29.5	27.0
EV/EBITDA (x)	31.4	27.1	24.0
Adj. EPS growth (%)	21.3	12.1	2.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Q4FY25 Result Review

Earnings revisions

We increase our sales forecasts by 4%-5% across FY26 and FY27. Pricing is coming in stronger vs expectations with Naturelle also contributing to strong sales growth. Our EBITDA revisions are at 0%-1% lower, despite additional pricing as margin forecasts are lower by 70bps to 80bps for FY26 and FY27. This margin downgrade reflects higher inflation and dilutive impact from stronger-than-average growth in Naturell.

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	30,395	29,222	4.0	32,522	31,033	4.8	34,799	n/a	n/a
EBITDA	3,797	4,360	4,416	(1.3)	4,788	4,785	0.1	5,254	n/a	n/a
EBITDA Margin (%)	14.0	14.3	15.1	(77bps)	14.7	15.4	(70bps)	15.1	n/a	n/a
Adj. PAT	3,410	3,823	4,118	(7.2)	3,922	4,098	(4.3)	4,426	n/a	n/a
Adj. EPS	53.62	62.03	64.74	(4.2)	67.99	64.44	5.5	79.44	n/a	n/a

Source: Company, Bloomberg, BOBCAPS Research

Valuation

We value Zydus Wellness at 30x, in line with its 5Y historical average P/E on 12M to Mar'27 EPS. Our TP changes to Rs2,023 from Rs 1,987. Share price return of +10% – HOLD.

The company stays focused on margins and while there is some scope for improvement, we expect 200bps to be an aggressive target, given the recent performance. Unless there is a reversion to high-margin expansion run rates, we see risk to company guidance of 17%-18% EBITDA margins over the next 2-3 years.

The newly-acquired business of Naturell is margin-dilutive with current margins being at 3%-5%. While an improvement is likely with scale and synergy, we do not expect Naturell to be at par with group margins.

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	30,395	32,522
EBITDA	3,372	3,082	3,797	4,360	4,788
Depreciation	250	238	284	282	298
EBIT	3,121	2,844	3,513	4,078	4,490
Net interest inc./(exp.)	(161)	(240)	(120)	(75)	(75)
Other inc./(exp.)	49	139	136	152	368
Exceptional items	101	142	(59)	0	0
EBT	3,009	2,743	3,529	4,155	4,783
Income taxes	(195)	(68)	119	332	861
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	3,823	3,922
Adjustments	101	142	(59)	0	0
Adjusted net profit	3,204	2,811	3,410	3,823	3,922

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	3,133	3,629	4,288	3,842	4,094
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	59,585	63,125
Shareholders' fund	51,227	53,575	56,716	60,221	63,761
Total liab. and equities	58,331	61,484	64,419	67,478	71,269
Cash and cash eq.	370	800	667	6,026	9,201
Accounts receivables	2,078	2,833	3,670	2,118	2,266
Inventories	4,575	4,676	5,175	4,253	4,531
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	3,229	3,419
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	67,478	71,269

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash flow from operations	917	2,464	3,800	6,088	3,829
Capital expenditures	(450)	(285)	(663)	(456)	(488)
Change in investments	(437)	(39)	(1,614)	0	0
Other investing cash flows	39	131	41	120	291
Cash flow from investing	(848)	(193)	(2,236)	(336)	(197)
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)	(382)
Other financing cash flows	(176)	(253)	(155)	(75)	(75)
Cash flow from financing	(1,385)	(257)	(1,863)	(393)	(457)
Chg in cash & cash eq.	(1,849)	3,598	(465)	5,359	3,175
Closing cash & cash eq.	370	800	667	6,026	9,201

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	48.8	41.9	54.5	62.0	68.0
Adjusted EPS	50.4	44.2	53.6	62.0	68.0
Dividend per share	5.0	5.0	5.0	6.4	6.7
Book value per share	805.1	842.4	891.8	977.1	1,105.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	5.3	5.1	4.4	3.9	3.5
EV/EBITDA	35.5	38.7	31.4	27.1	24.0
Adjusted P/E	36.4	41.5	34.2	29.5	27.0
P/BV	2.3	2.2	2.1	1.9	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	106.5	102.5	96.6	92.0	82.0
Interest burden (PBT/EBIT)	96.4	96.4	100.5	101.9	106.5
EBIT margin (EBIT/Revenue)	13.8	12.2	13.0	13.4	13.8
Asset turnover (Rev./Avg TA)	39.1	38.9	43.0	46.1	46.9
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	6.4	5.4	6.2	6.5	6.3

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Revenue	12.2	3.2	16.4	12.2	7.0
EBITDA	(2.2)	(8.6)	23.2	14.8	9.8
Adjusted EPS	3.7	(12.3)	21.3	12.1	2.6

Profitability & Return ratios (%)

EBITDA margin	15.0	13.2	14.0	14.3	14.7
EBIT margin	13.8	12.2	13.0	13.4	13.8
Adjusted profit margin	14.2	12.1	12.6	12.6	12.1
Adjusted ROAE	6.4	5.4	6.2	6.5	6.3
ROCE	6.1	5.3	6.2	6.7	7.0

Working capital days (days)

Receivables	28	39	44	35	25
Inventory	130	148	141	120	105
Payables	108	108	113	104	95

Ratios (x)

Gross asset turnover	4.6	4.9	5.2	5.4	5.3
Current ratio	1.3	1.6	1.5	2.0	2.4
Net interest coverage ratio	19.4	11.9	29.3	54.1	59.6
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%

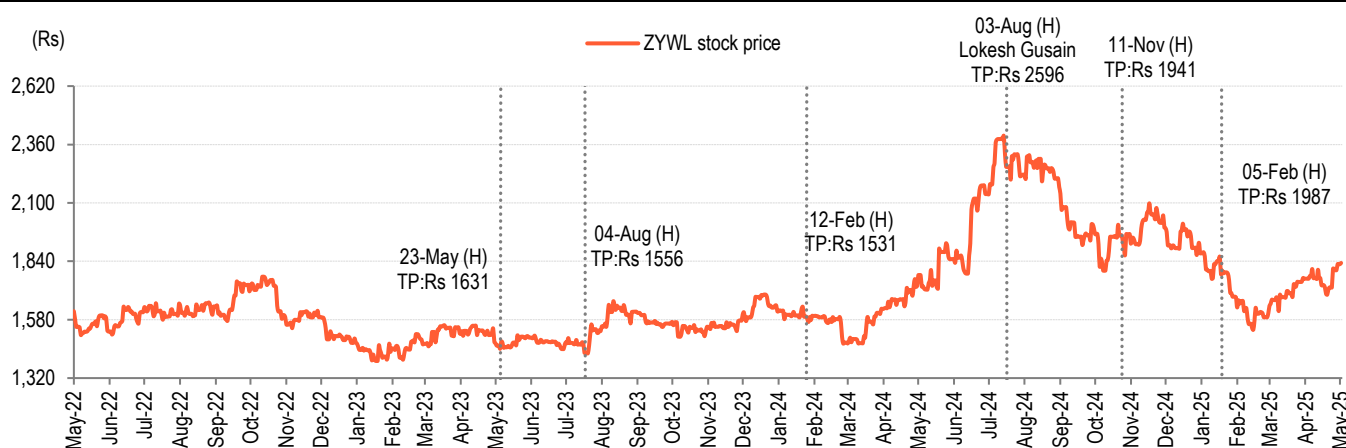
HOLD – Expected return from -6% to +15%

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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