

Distinct product portfolio sees resilient performance

Zydus Wellness (ZWL) posted 13.4% revenue fall given manufacturing, supply chain operations were disrupted in April. However, with manufacturing, supply chain stabilising, June saw double digit growth. Everyuth, Nutralite were impacted most as demand conditions were muted due to lack of 'out of home' activities. Nutralite derives 75% sales from HoReCa segment. Sugarfree saw robust sales growth with increasing health caution. Glucon D, which was impacted in April due to supply constraint, saw a gradual recovery in May & June. Complian saw flat YoY sales growth. We believe ZWL would have lost market share given Horlicks, Boost (HUL's brand) saw 5% growth in Q1. It was a seasonal quarter for Nycil. The brand saw positive growth in May, June. Gross margins fell 356 bps as ZWL was holding higher skimmed milk powder (SMP) inventory at the start of quarter. Operating profit was flat & operating margin saw a 310 bps improvement with 650 bps, 295 bps saving in marketing, other overhead spends, respectively. This saving were partly offset by 282 bps rise in employee spend. PAT rose 10.9% to ₹ 89.2 crore due to ₹ 6 crore tax reversal.

New product, variants launch to drive revenues

During this disruptive phase, many FMCG companies are introducing new products & trying to leverage the health, hygiene & immunity boosting proposition. ZWL also launched various new products in Q1. The company has been trying to fill the gaps in its malt beverage portfolio by introducing toddler health drink 'Complan Nutrigo' and 75 gm Complan sachet. Further, it has launched Glucon-D Immuno volts, which would be marketed as an immunity boosting brand. The company is looking to grow sales in the second summer (September-October), which would help reduce the seasonality in Glucon D. By launching 'Nutralite Choco Spread', it is trying to expand Nutralite through 'in-home' consumption. The variant has been launched through e-commerce channel. It has also re-activated Sugarfree green & introduced Nycil hand sanitisers. We believe higher number of new launches increases the chances of getting more brands on the growth path. We expect revenue CAGR of 7.5% to ₹ 2041.4 crore in FY20-22E.

Realignment of A&P, benign RM to expand margins

With SMP prices declining sharply, we expect gross margins to improve 50 bps in FY21E. The company spends ~13% of sales as A&P. We believe ZWL would rationalise media spends by increasing its share of voice through digital media. We expect operating margins to expand 380 bps to 22.0% in FY20-22E (FY20 margins saw sharp dip with sudden imposition of lockdown). We estimate adjusted earning CAGR of 30.6% in FY20-22E.

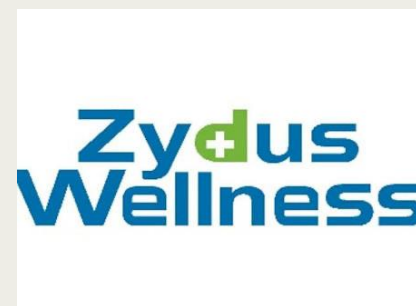
Valuation & Outlook

We believe ZWL has a unique product portfolio where it is a market leader in most categories and growing the market. We expect healthy revenue and strong earnings with sharp margin expansion in FY20-22E. The stock is available at 29.2x FY22E earnings. We value the stock 35x FY22E EPS and maintain our **BUY** rating with a revised target price of ₹ 1925/share.

Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	430.6	512.6	842.8	1,766.8	1,809.0	2,041.4	7.5
EBITDA	99.1	125.3	174.4	321.1	363.7	448.5	18.2
EBITDA Margin %	23.0	24.4	20.7	18.2	20.1	22.0	
Adjusted Net Profit	109.0	133.9	169.1	185.9	224.8	317.2	30.6
Adjusted EPS (₹)	13.9	17.1	29.3	32.2	39.0	55.0	
Adjusted P/E (x)	115.2	93.8	54.8	49.8	41.2	29.2	
RoCE (%)	15.5	15.9	3.2	5.9	6.5	7.8	
RoE (%)	19.6	19.4	5.0	5.4	6.2	8.1	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	9,266.0
Total Debt (FY20)	1,519.1
Cash and Investments (FY20)	192.8
EV	10,592.2
52 week H/L (₹)	1860 / 1100
Equity capital	57.7
Face value (₹)	10.0

Key Highlights

- Zydus Wellness reported 13.4% decline in sales with Everyuth, Nutralite worst impacted. However, Sugarfree saw strong growth
- Operating margins improved 310 bps with 650 reduction in marketing spends off setting gross margin contraction
- Net profit witnessed growth of 10.9% on the back of sustained operating profits & ₹ 6 crore tax reversal
- Maintain BUY with revised target price of ₹ 1925 /share

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Exhibit 1: Change in estimates

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Net Sales	537.4	620.3	-13.4	487.9	10.1	Net sales declined by 13.4% as manufacturing plants were shut in April disrupted supply, Also, demand for discretionary & out of home products were also subdued
Raw Material Expenses	109.5	129.3	-15.3	301.2	-63.7	Gross margins contracted as the company was holding high cost SMP inventory by the end of March
Employee Expenses	52.7	43.3	21.6	46.8	12.6	
SG&A Expenses	49.1	97.2	-49.4	46.4	6.0	
Other operating Expenses	74.9	104.8	-28.5	65.2	14.9	
EBITDA	122.4	122.0	0.3	105.0	16.6	
EBITDA Margin (%)	22.8	19.7	310 bps	21.5	125 bps	Operating margins were up 310 bps mainly on account of substantial reduction in A&P spends & other cost cutting measures
Depreciation	6.4	10.4	-38.0	6.9	-6.7	
Interest	34.6	34.9	-0.7	34.7	-0.3	
Other Income	1.8	3.0	-39.9	1.3	40.0	
PBT	83.2	79.8	4.1	64.7	28.5	
Exceptional Items	0.0	0.0	NA	-2.8	NA	
Tax Outgo	-6.1	-0.6	NA	-7.6		
PAT	89.2	80.4	10.9	69.5	28.4	Net profit witnessed a growth of 10.9% with sustained operating profits & tax write back

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Sales	1,669.5	1,809.0	8.4	2,040.6	2,041.4	0.0	We change our revenue estimate for FY21 given the sugarfree, Glucon D & Complian has seen strong demand even during lockdown
EBITDA	321.3	363.7	13.2	421.1	448.5	6.5	
EBITDA Margin (%)	19.2	20.1	86 bps	20.6	22.0	134 bps	We change our margins estimates with milk prices & crude based raw material prices declining sharply
PAT	182.5	224.8	23.2	289.8	317.2	9.5	
EPS (₹)	31.6	39.0	23.4	50.3	55.0	9.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Sugarfree (₹ crore)	318.9	344.7	386.0	433.6	334.3	434.6	We change our estimates given strong demand from Sugarfree, Complian & Glucon D
Everyuth (₹ crore)	167.9	193.1	173.8	212.7	173.8	221.6	
Glucon D (₹ crore)	102.3	427.8	453.6	504.0	410.4	489.1	
Complan (₹ crore)	99.0	396.0	427.7	475.2	407.9	473.8	
RM / Sales (%)	34.7	42.7	39.1	39.1	41.0	40.9	

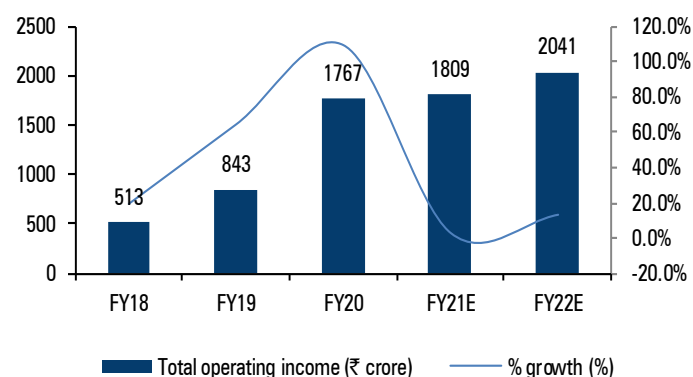
Source: Company, ICICI Direct Research

Conference Call Highlights

- ZWL witnessed sales decline of 13.4% with Everyuth, Nutralite impacted the most during lockdown due to the reduced out of home activity. It was near washout sales in April due to the disruption in manufacturing & supply chain operations. However, May saw gradual sales recovery & June saw double digit growth
- Sugarfree saw robust growth due to increasing health cautiousness. The company re-activated Sugarfree green during the quarter. The growth was perked up not only by increase in buying from existing consumers but also from new consumers
- Nutralite was worst impacted during lockdown as Hotels, Restaurants & Cafés (HoReCa) contributes 75% of its sales. The company launched Nutralite Choco spreads in two flavours during the quarter to leverage higher in-home consumption. It is looking to expand Nutralite in the spreads segment with a taste & health proposition and has a healthy pipeline of new products
- Complan sales were impacted in April due to supply chain problems. However, it saw good traction in May and June. The sales growth has been flat for the quarter. The company launched 'Complan Nutrigno' in toddler health food drinks. Further, it is planning to launch a convenient 75 gm Sachet in base brand. It is also increasing e-commerce activity for the brands. All these efforts are initiated to fill the gap in its Complan portfolio. West Bengal is the biggest state for Complan. The brand has seen good traction in UP and Bihar in the last few years. The company is looking to expand the brand through doctor's advocacy. It is looking to increase market share by 50-100 bps through these initiatives
- With the sales disruption in April, Glucon D was recovering well. However, the cyclone in West Bengal and early monsoons also impacted some growth. The company launched Glucon D Immuno volts to leverage the immunity boosting consumption trend. ZWL is evaluating several extensions of Glucon D to leverage the strong base brand. The category size is ₹ 850 crore and is growing at 10%
- The trends for Nycil were also similar as April saw supply disruptions while May, June saw a strong recovery given it was a seasonal quarter. The company launched Nycil sanitiser to leverage the current hygiene trend. This segment also contributed to growth in May-June. The talcum powder category size is ₹ 850 crore and is growing at 8%. Nycil is market leader with 35% market share. The No. 2 in the category is some distance away. The company's focus is to grow the category
- Contraction in gross margins was due to high inventory of SMP at the beginning of the quarter. However, milk prices are down 50%. The company would benefit from this in coming quarters. Palm oil prices are up 15%. The company expects expansion in operating margins
- The company is planning further extensions of Complan base brands. The product is scientific from a medical fraternity perspective. Though the category penetration is 25%, the brand availability would have been ~12%. The company is planning to expand direct distribution. However, there have been some delays due to the lockdown. Still, it continues to expand the brand through the chemist portfolio. ZWL is looking to leverage the parent company's strength in both chemist channel as well as on doctor's advocacy
- Nycil & Glucon D are leaders in their respective categories. Hence, it is easier to grow the market. However, in malt food, Complan is the fifth ranked brand. Hence, it would take some time to grab a larger market share

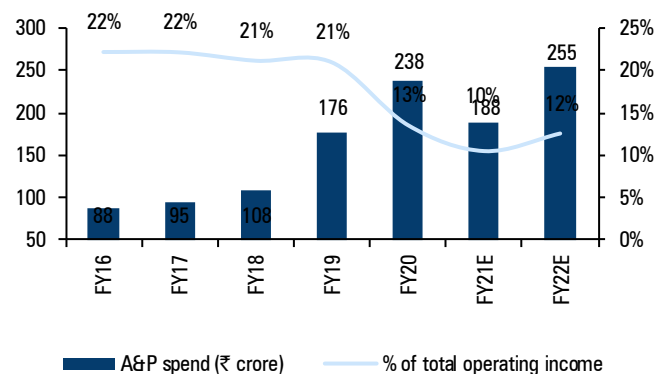
Key Metrics

Exhibit 4: Revenue & revenue growth trend



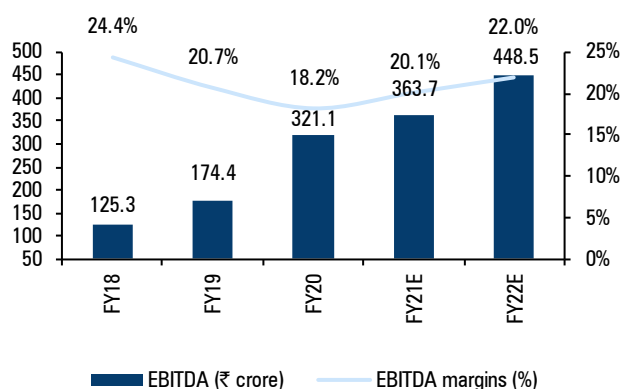
Source: ICICI Direct Research, Company

Exhibit 5: Marketing spend trend



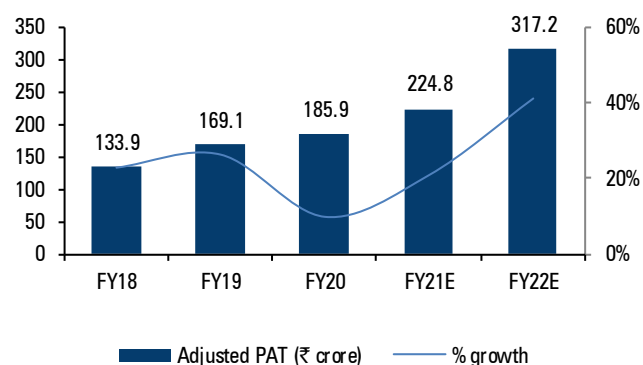
Source: ICICI Direct Research, Company

Exhibit 6: Operating margins trend (%)



Source: Company, ICICI Direct Research

Exhibit 7: Adjusted PAT growth to recover in FY22E



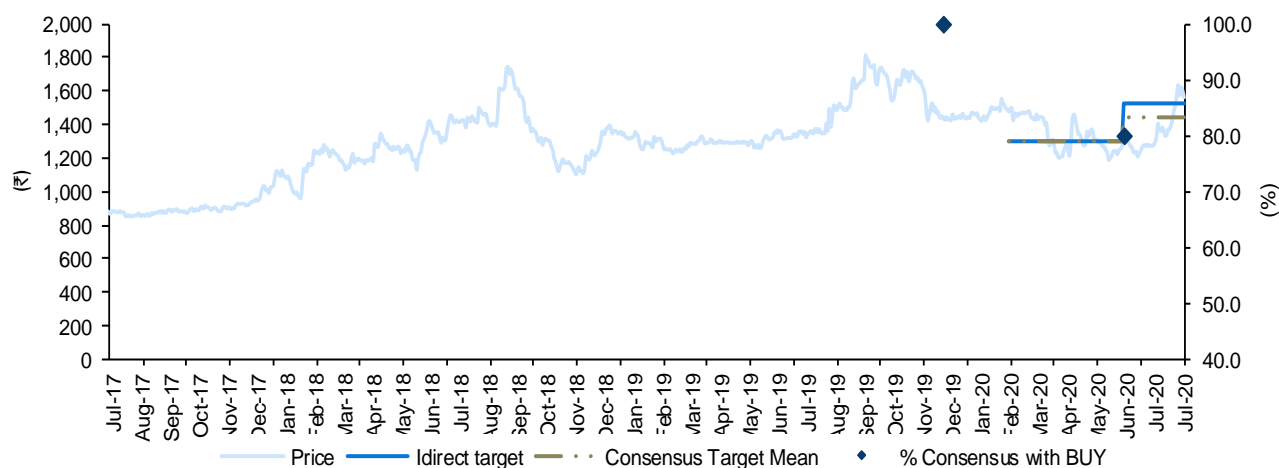
Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	842.8	64.4	29.3	-14.4	54.8	61.2	5.0	3.2
FY20	1766.8	109.6	32.2	9.9	65.4	33.3	5.4	5.9
FY21E	1809.0	2.4	39.0	20.9	41.2	29.3	6.2	6.5
FY22E	2041.4	12.8	55.0	41.1	29.2	23.2	8.1	7.8

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (%)	Change
1	Cadila Healthcare Lt	30-Jun-20	63.6	36.65m	0.00m
2	Threpsi Llp	30-Jun-20	12.5	7.22m	0.00m
3	Zydus Family Trust	30-Jun-20	4.3	2.47m	0.02m
4	Life Insurance Corp	30-Jun-20	3.2	1.84m	0.48m
5	Matthews Intl Capita	30-Jun-20	2.5	1.45m	(0.45)m
6	Reliance Capital Tru	30-Jun-20	1.7	1.00m	0.00m
7	Prazim Trading & Inv	31-Mar-20	1.4	0.82m	0.00m
8	Ppfas Asset Manageme	30-Jun-20	1.3	0.73m	0.01m
9	L&T Mutual Fund	30-Jun-20	0.4	0.23m	0.09m
10	Dimensional Fund Adv	31-May-20	0.2	0.13m	(0.01)m

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	67.6	67.6	67.6	67.6	67.9
FII	4.3	4.4	4.1	3.3	2.0
DII	19.1	19.3	20.7	21.5	21.6
Others	9.0	8.7	7.5	7.6	8.6

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Total operating Income	842.8	1,766.8	1,809.0	2,041.4
Growth (%)	64.4	109.6	2.4	12.8
Raw Material Expenses	298.4	778.8	792.5	894.4
Employee Expenses	85.6	174.7	197.5	212.3
Marketing Expenses	176.1	238.0	188.1	254.8
Administrative Expenses	39.7	0.0	84.7	87.0
Other expenses	68.7	254.3	182.5	144.4
Total Operating Expenditure	668.5	1,445.8	1,445.3	1,592.8
EBITDA	174.4	321.1	363.7	448.5
Growth (%)	39.2	84.1	13.3	23.3
Depreciation	12.5	26.4	26.0	27.2
Interest	30.1	139.9	124.1	115.9
Other Income	38.9	10.7	11.2	11.8
PBT	170.6	165.5	224.8	317.2
Total Tax	-0.6	-20.5	0.0	0.0
PAT before MI	171.2	185.9	224.8	317.2
Minority Interest	2.1	0.0	0.0	0.0
PAT	169.1	185.9	224.8	317.2
Growth (%)	25.4	8.6	20.9	41.1
Adjusted EPS (₹)	40.10	32.24	38.99	55.01

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit After Tax	107.6	119.7	224.8	317.2
Add: Depreciation	12.5	26.4	26.0	27.2
(Inc)/dec in Current Assets	-42.7	16.0	-71.0	-6.6
Inc/(dec) in CL and Provisions	71.9	97.1	87.2	74.9
CF from operating activities	149.4	259.2	267.1	412.8
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in LT loans & advances	0.0	-64.0	-10.0	-10.0
(Inc)/dec in Fixed Assets	-17.1	-5.1	-30.0	-25.0
Others	-4,144.6	-14.1	-5.0	-5.0
CF from investing activities	-4,161.7	-83.2	-45.0	-40.0
Issue/(Buy back) of Equity	18.6	0.0	0.0	0.0
Inc/(dec) in loan funds	1,544.3	-50.2	0.0	-100.0
Dividend paid & dividend tax	-37.6	-69.4	-34.8	-34.8
Interest Paid	-30.1	-140.1	-124.1	-115.9
Others	2,556.4	0.0	0.0	0.0
CF from financing activities	4,051.5	-259.7	-158.8	-250.7
Net Cash flow	39.3	-83.7	63.2	122.1
Opening Cash	29.6	138.2	82.4	145.6
Cash with Bank	95.4	27.9	0.0	0.0
Closing Cash	164.3	82.4	145.6	267.7

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	57.7	57.7	57.7	57.7
Reserve and Surplus	3,328.6	3,403.0	3,593.0	3,875.5
Total Shareholders funds	3,386.3	3,460.7	3,650.7	3,933.2
LT Borrowings & Provisions	1500.0	1500.0	1500.0	1400.0
Deferred Tax Liability	69.3	19.1	19.1	19.1
Others Non-current Liabilities	26.0	27.2	27.2	27.2
Total Liabilities	4,981.5	5,006.9	5,196.9	5,379.4
Assets				
Gross Block	349.1	372.7	392.7	407.7
Less: Acc Depreciation	141.7	168.1	194.1	221.3
Net Block	207.4	204.7	198.6	186.4
Capital WIP	10.3	3.5	13.5	23.5
Goodwill	3,819.7	3,920.0	3,920.0	3,920.0
Non-current Investments	32.9	1.6	1.6	1.6
LT loans & advances	41.0	4.7	14.7	24.7
Deferred Tax Assets	103.0	120.8	120.8	120.8
Other Non-Current Assets	546.2	558.6	563.6	568.6
Current Assets				
Inventory	233.1	292.3	292.4	341.2
Debtors	96.0	118.2	128.9	139.8
Loans and Advances	2.8	0.0	6.0	6.8
Other Current Assets	155.7	172.4	334.2	377.1
Cash	164.3	82.4	145.6	267.7
Investments	46.1	110.4	127.0	146.0
Current Liabilities				
Creditors	398.1	491.1	500.6	553.7
Provisions	2.3	0.0	4.9	5.5
Short term debt & other CL	76.6	91.7	164.5	185.6
Application of Funds	4,981.5	5,006.9	5,196.9	5,379.4

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	29.3	32.2	39.0	55.0
Cash EPS	31.5	29.2	43.5	59.7
BV	587.3	600.2	633.1	682.1
DPS	5.4	5.0	5.0	5.0
Cash Per Share	28.5	14.3	25.3	46.4
Operating Ratios (%)				
EBITDA Margin	20.7	18.2	20.1	22.0
PBT / Total Operating income	20.2	9.4	12.4	15.5
PAT Margin	20.1	8.0	12.4	15.5
Inventory days	100.9	60.4	59.0	61.0
Debtor days	41.6	24.4	26.0	25.0
Creditor days	172.4	101.5	101.0	99.0
Return Ratios (%)				
RoE	5.0	5.4	6.2	8.1
RoCE	3.2	5.9	6.5	7.8
Valuation Ratios (x)				
P/E	54.8	65.4	41.2	29.2
EV / EBITDA	61.2	33.3	29.3	23.2
EV / Net Sales	12.7	6.1	5.9	5.1
Market Cap / Sales	11.0	5.2	5.1	4.5
Price to Book Value	2.7	2.7	2.5	2.4
Solvency Ratios				
Debt/EBITDA	9.0	4.7	4.2	3.2
Debt / Equity	0.5	0.4	0.4	0.4
Current Ratio	1.0	1.0	1.1	1.2
Quick Ratio	0.5	0.5	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY21E	FY20	FY21E	FY22E	FY20	FY21E
Colgate (COLPAL)	1,423	1,540	Hold	39,377	30.0	31.0	34.3	47.4	45.9	41.5	8.8	8.6	7.8	60.7	68.0	76.0	51.2	52.1	58.3
Dabur India (DABIND)	513	565	Buy	87,118	8.2	8.8	10.3	62.6	58.2	50.0	10.0	9.9	8.6	26.1	24.0	24.7	21.9	20.9	21.4
Hindustan Unilever (HINLEV)	2,209	2,410	Hold	519,159	31.2	32.4	40.1	70.8	68.2	55.1	13.6	12.2	10.6	89.5	26.7	33.0	85.7	20.3	25.4
ITC Limited (ITC)	194	250	Buy	245,475	12.5	11.7	13.0	15.6	16.5	14.9	5.3	5.2	4.6	29.4	28.3	36.1	23.8	21.7	27.7
Jyothy Lab (JYOLAB)	123	115	Hold	4,535	4.3	4.1	5.7	28.6	29.8	21.4	2.7	2.9	2.4	24.3	23.3	28.8	21.7	18.8	23.8
Marico (MARLIM)	363	380	Hold	45,286	8.1	8.5	9.6	44.9	42.7	37.9	6.2	6.1	5.5	41.0	42.3	46.2	34.5	35.6	39.5
Nestle (NESIND)	16,522	18,000	Hold	164,869	204.3	230.3	268.9	80.9	71.7	61.5	13.4	12.4	10.9	56.9	59.3	65.9	101.9	114.2	123.6
Tata Consumer Products (TATGLC)	428	440	Buy	37,667	5.0	8.7	10.9	85.7	49.3	39.3	3.9	3.7	3.4	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,260	4,000	Buy	4,942	196.9	124.8	216.3	16.6	26.1	15.1	4.0	4.5	3.5	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	708	580	Reduce	20,122	16.4	9.7	17.8	43.3	72.7	39.7	2.8	3.3	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,607	1,925	Buy	9,266	24.6	39.0	55.0	65.4	41.2	29.2	5.2	5.1	4.5	5.9	6.5	7.8	5.4	6.2	8.1

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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