MIRAE ASSET Sharekhan

Zydus Wellness Ltd

Mixed bag Q3

Consumer Goods	Sharekhan code: ZYDUSWELL
Reco/View: Buy ↔	CMP: Rs. 1,703
	Price Target: Rs. 2,121 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	+	↓	=
RQ	+	↔	+
RV	+	↔	+

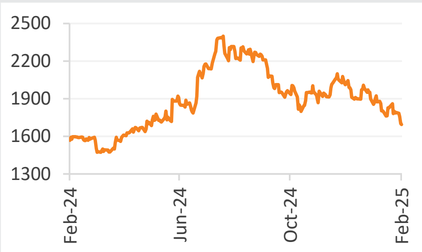
Company details

Market cap:	Rs. 10,834 cr
52-week high/low:	Rs. 2,484/1,442
NSE volume: (No of shares)	0.4 lakh
BSE code:	531335
NSE code:	ZYDUSWELL
Free float: (No of shares)	1.9 cr

Shareholding (%)

Promoters	69.6
FII	3.8
DII	20.1
Others	6.4

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-8.7	-9.3	-25.6	8.0
Relative to Sensex	-8.4	-7.3	-22.0	1.6

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Zydus Wellness Limited's (ZWL's) Q3FY25 numbers were mixed with revenue growing by 15% y-o-y to Rs. 462 crore (versus Rs. 435 crore expected), while OPM stood flat y-o-y at 3.1% (against expectation of 5.8%). PAT came in at Rs. 6.4 crore.
- Management has guided for double-digit revenue growth and EBITDA growth to be in line with or higher than revenue growth in FY26.
- The company aims to achieve 17-18% OPM in the coming years through a mix of gross margin expansion and operating leverage.
- The stock has corrected by 19% since its recent high and trades at 31x/23x/19x its FY25E/FY26E/FY27E EPS, respectively. We maintain a Buy with a revised PT of Rs. 2,121.

Zydus Wellness Limited's (ZWL's) Q3FY25 numbers were mixed with revenue beating estimates and growing by 14.6% y-o-y to Rs. 462 crore (versus expectation of Rs. 435 crore), while OPM stood flat y-o-y at 3.1% and missed expectations of 5.8%. Volume growth stood at 4.8%. Food & nutrition and personal care categories grew by ~9% and 50% y-o-y, respectively. Glucon-D, Nycil, Sugar Free, Everyuth Peel-Off and Everyuth Scrub maintained their leadership positions in their respective categories. An effective hedging strategy, favourable product mix, and calibrated price increase aided in 88 bps y-o-y gross margin expansion to 49%, while higher advertisement spends and employee cost led to OPM remaining flat y-o-y at 3.1%. Operating profit grew by 12.4% y-o-y to Rs. 14.5 crore. PAT came in at Rs. 6.4 crore, lower than our expectation of Rs. 22.5 crore. In 9MFY25, revenue grew by 16.2% y-o-y to Rs. 1,796 crore, OPM rose by 110 bps y-o-y to 10.5% and adjusted PAT grew by 34% y-o-y to Rs. 170 crore.

Key positives

- The personal care segment grew by 50% y-o-y.
- Everyuth Scrub and Everyuth Peel-Off reported a 418 bps and 107 bps y-o-y increase, respectively, in market share in their respective categories.

Key negatives

- Glucon-D witnessed a 129-bps y-o-y decline in market share in the glucose powder category.

Management Commentary

- While rural consumption continued to expand steadily, urban demand remained sluggish. Management expects measures announced in Budget 2025 to boost the user sentiment and drive consumption in the coming months.
- Strong growth in personal care in Q3 was driven by ZWL's focus on building the categories, specifically scrub and peel off, widening the portfolio basket, and improving market share.
- For FY26, management has guided for double-digit revenue growth and EBITDA growth to be in line with or higher than revenue growth. The company aims to achieve 17-18% OPM in the coming years through a mix of gross margin expansion and operating leverage.
- Management guided that pricing is the number one lever used to mitigate cost increases, especially in categories where the company has pricing power.
- ZWL successfully completed the acquisition of 100% equity share capital of Naturell (India) Pvt. Ltd. in Q3. As a result, the financial results include about one month's performance of the Naturell business (low single-digit contribution to revenue and breakeven at EBITDA level). The acquisition is expected to be EPS accretive from FY26.

Revision in earnings estimates – We have reduced our earnings estimates for FY25 and FY26 to factor in lower OPM than earlier expected, while we have broadly maintained our estimates for FY27.

Our Call

View – Maintain Buy with a revised PT of Rs. 2,121: ZWL posted good performance in 9MFY25, registering strong double-digit revenue and PAT growth and ~110 bps y-o-y rise in OPM. Management is confident of double-digit revenue growth and good margin expansion in FY26. In the medium term, a large focus is on achieving consistent double-digit revenue growth through distribution expansion, doing consumer-centric innovations, and higher marketing campaigns. The stock has corrected by 19% since its recent high and trades at 31x/23x/19x its FY25E/FY26E/FY27E EPS, respectively. We maintain Buy with a revised price target (PT) of Rs. 2,121 (rolling over to FY27 estimates).

Key Risks

Slowdown in sales of key categories or disruption caused by the weakening of consumer sentiments or any seasonal vagaries remains key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,255	2,328	2,693	3,044	3,379
OPM (%)	15.0	13.2	14.1	15.7	16.5
Adjusted PAT	320	277	353	475	562
YoY growth (%)	3.7	-13.4	27.2	34.7	18.2
Adjusted EPS (Rs.)	50.4	43.6	55.5	74.7	88.4
P/E (x)	33.7	38.9	30.6	22.7	19.2
P/B (x)	2.1	2.0	1.9	1.8	1.6
EV/EBITDA (x)	31.7	34.5	27.8	22.2	18.3
RoNW (%)	6.4	5.3	6.4	8.1	8.8
RoCE (%)	6.0	5.4	6.5	8.0	8.8

Source: Company; Mirae Asset Sharekhan estimates

Key highlights

- Small unit packs are growing at a faster pace, driven by consumer behaviour shifting to one-time use packs for freshness and experience. The trend towards premiumisation remains strong, indicating the willingness to pay a higher price for certain goods or services.
- The face scrub category has grown by 18.8% y-o-y. Everyuth Scrub has maintained its leadership position with 47.3% market share in the facial scrub category, witnessing a 418-bps y-o-y increase in the market share.
- Peel-Off category has grown by 29% y-o-y. Everyuth Peel-Off continues to be the market leader with a 77.8% market share, reflecting a 106.7 bps y-o-y increase in the market share.
- Everyuth brand holds the fifth position in the overall facial cleaning segment with a 7.2% market share (up 96.6 bps y-o-y).
- Prickly heat powder category has grown by 20.3% y-o-y. Nycil surpassed category growth, delivering strong and consistent performance. Nycil has maintained its No. 1 position with a market share of 33.9% (down 78.8 bps y-o-y).
- The glucose powder category has grown by 18.7% y-o-y. Glucon-D maintained its leadership in the glucose powder category with a 58.9% market share (down 128.9 bps y-o-y).
- The nutrition category has shown a sign of revival across key metrics. The category has grown by 0.9% y-o-y. Complan has a 4.1% market share in the category.
- Sugar Free brand continues to maintain its dominant position, holding a commanding 95.4% market share in the sugar substitute category, which has grown by 6.3% y-o-y. Sugar Free Green is experiencing strong double-digit growth, driven by increasing volume uptake.
- ZWL launched several new products and extensions, including Nutralite Doodhshakti Professional range expansion into the processed cheese category, Naturell launched the choco filled fibre bar 'Melting Chocolate,' and two variants under the fruit-filled bar range ('Blueberry Blast' and 'Berry Delite') and 'Protein Bar Bytes'.

Results (Consolidated) Rs cr

Particulars	Q3FY25	Q3FY24	y-o-y (%)	Q2FY25	q-o-q (%)
Net Revenue	**461.9**	**403.2**	**14.6**	**492.9**	**-6.3**
Material cost	235.6	209.2	12.6	257.5	-8.5
Employee cost	52.3	44.2	18.3	52.2	0.2
Advertisement and Sales Promotion	58.6	49.4	18.6	63.4	-7.6
Other expenditure	100.9	87.5	15.3	100.2	0.7
Total expenditure	**447.4**	**390.3**	**14.6**	**473.3**	**-5.5**
Operating profit	**14.5**	**12.9**	**12.4**	**19.6**	**-26.0**
Other Income	4.1	3.2	28.1	4.0	2.5
Interest Expense	3.3	6.3	-47.6	0.9	-
Depreciation	5.2	6.1	-14.8	4.9	6.1
PBT	**10.1**	**3.7**	**-**	**17.8**	**-43.3**
Tax	3.7	3.4	8.8	1.6	128.4
Adjusted PAT	**6.4**	**0.3**	**-**	**16.2**	**-60.4**
Exceptional item	0.0	0.0	-	4.7	-
Reported PAT	**6.4**	**0.3**	**-**	**20.9**	**-69.4**
Reported EPS (Rs.)	1.0	0.0	-	3.3	-69.4
			bps		**bps**
GPM (%)	49.0	48.1	88	47.8	124
OPM (%)	3.1	3.2	-6	4.0	-84
NPM (%)	1.4	0.1	131	3.3	-190

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Volume growth recovery to be gradual

Demand environment continued to be muted in Q3 with rural growth outpacing urban growth for another quarter. The monsoon season was above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Revenue growth in the near term would be driven by a mix of volume and price-led growth as most companies have taken price increases to mitigate the impact of higher input costs. Global uncertainties will lead to volatility in raw-material prices and currency movement. This will put pressure on the margins of consumer goods companies in the quarters ahead. We expect operating profit growth to be lower as compared to revenue growth in the near term. On the other hand, an increase in commodity prices will reduce the competition intensity from small/regional players in the quarters ahead.

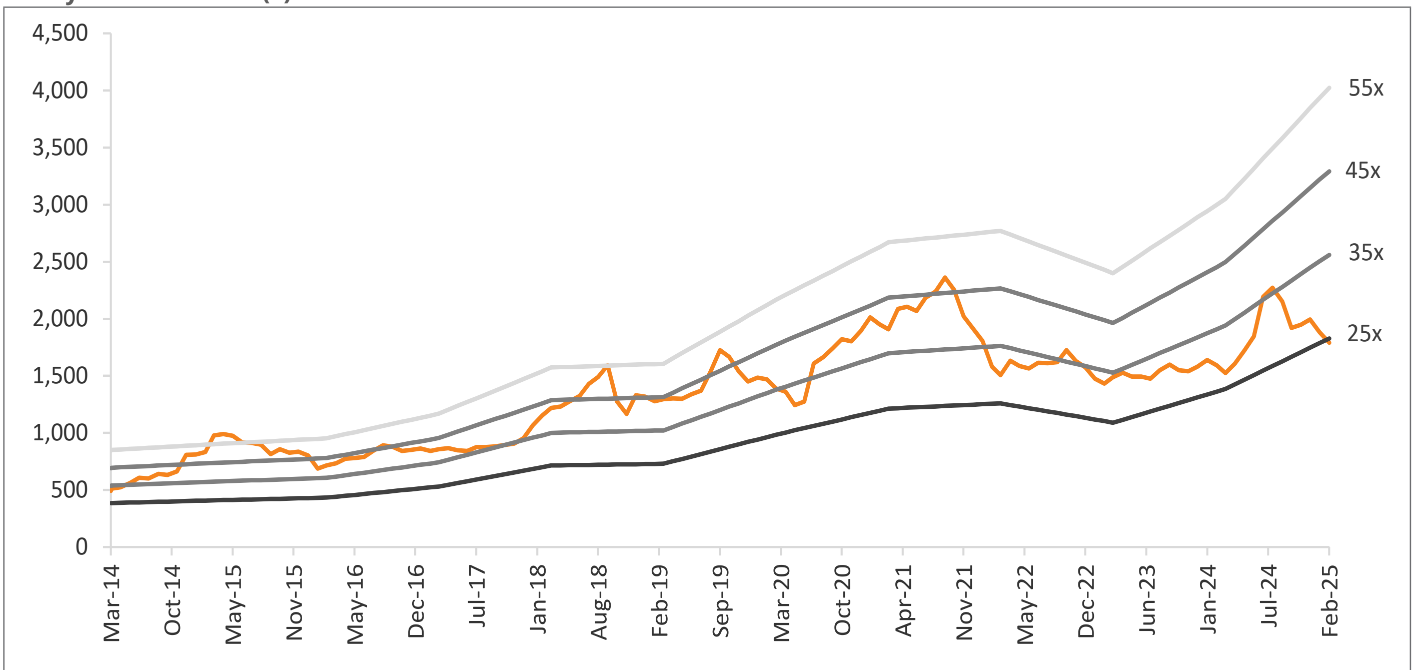
■ Company Outlook – Strong growth ahead driven by multiple levers

ZWL's Q3FY25 numbers were mixed, with revenue beating estimates while OPM lagged expectations. In the medium term, ZWL banks on three pillars – accelerating growth of core brands, building international presence, and significantly growing scale – to drive growth. Scale-up of the international business and some of the new launches maturing will improve growth prospects in the long run. Key brands of the company continue to maintain their strong leadership position and gain market share consistently. Margins are expected to improve with the correction in prices of key input materials and better operating efficiencies.

■ Valuation – Maintain Buy with a revised PT of Rs. 2,121

ZWL posted good performance in 9MFY2025, registering strong double-digit revenue and PAT growth and ~110 bps y-o-y rise in OPM. Management is confident of double-digit revenue growth and good margin expansion in FY2026. In the medium term, a large focus is on achieving consistent double-digit revenue growth through distribution expansion, doing consumer-centric innovations, and higher marketing campaigns. The stock has corrected by 19% since its recent high and trades at 31x/23x/19x its FY2025E/FY2026E/FY2027E EPS, respectively. We maintain BUY with a revised price target (PT) of Rs. 2,121 (rolling over to FY2027 estimates).

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Dabur India	50.9	50.4	42.8	38.8	38.3	33.5	21.5	20.5	22.4
Zydus Wellness	38.9	30.6	22.7	34.5	27.8	22.2	5.4	6.5	8.0

Source: Company; Mirae Asset Sharekhan Research

About company

ZWL is the listed entity of Zydus Group and one of the leading companies in the fast-growing Indian consumer wellness market. With the launch of India's first zero calorie replacement of sugar, called Sugar Free, in 1988, ZWL began its journey as India's leading consumer wellness company. Since then, the company has grown into a larger business, spanning the entire wellness spectrum with seven power brands – Complan, Sugar Free, I'm lite, Glucon-D, Everyuth, Nycil, and Nutralite. The company is the market leader in most of its product categories.

Investment theme

Zydus has a strong brand portfolio that leads its respective categories. Sugar Free brand has a ~95% market share in the artificial sweetener category, while Glucon-D has a ~59% market share. Over the past three years, the company has consolidated and grown its market share across categories, launched multiple innovations, doubled its direct distribution reach, made significant strides in growing business ahead of the category in both online and offline organised trade, reduced cost, and simplified the organisation, leading to synergy benefits. We expect the company's revenue and PAT to report a CAGR of 13% and 27%, respectively, during FY24-FY27E.

Key Risks

- ZWL is largely present in niche categories, which are discretionary in nature. Any slowdown in the macro environment would affect growth of these categories.
- ZWL is facing stiff competition in skin care products such as face wash and scrubs from multinationals, which has affected revenue growth of these categories.

Additional Data

Key management personnel

Management	Designation
Sharvil Pankaj Patel	Chairman
Tarun Gian Arora	Chief Executive Officer
Umesh Parikh	Chief Financial Officer
Nandish P. Joshi	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Threpsi Care LLP	7.27
2	Nippon Life Asset Management Ltd.	5.36
3	Quant Money Managers Ltd.	3.87
4	Vanguard Group Inc.	1.33
5	ICICI Prudential Asset Management Co. Ltd.	1.23
6	SBI Funds Management Ltd.	0.98
7	Norges Bank	0.64
8	Dimensional Fund Advisors LP	0.28
9	Blackrock Inc.	0.13
10	Tata Asset Management Pvt. Ltd.	0.13

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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