

STOCK PICKS

Zydus Wellness



Zydus Wellness Ltd.

CMP: Rs 2,304

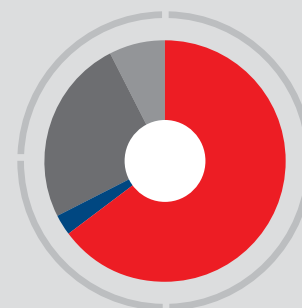
Rating: BUY

Target: Rs 2,680

Company Information

BSE Code	531335
NSE Code	ZYDUSWELL
Bloomberg Code	ZYWL IN
ISIN	INE768C01010
Market Cap (Rs. Cr)	14670
Outstanding shares(Cr)	6.4
52-wk Hi/Lo (Rs.)	2396.1 / 1585.55
Avg. daily volume (1yr. on NSE)	58008
Face Value(Rs.)	10
Book Value	738.4

Shareholding Pattern as on 30th June 2021



Company overview

Zydus Wellness Ltd. (ZWL) is one of the leading Indian consumer wellness players with a strong presence in its niche markets. The company boasts of leadership position in 5 of its 7 brands – SugarFree, EverYuth Scrubs and Peels, Nutralite, Glucon D and Nycil. Its other brands include Complan and Sampriti Ghee. The company's growth over the years has been led by pioneering brands such as Sugar Free, EverYuth, and

Nutralite and innovations offering new benefits to consumers. The company is the market leader in most of its product categories. In FY19, ZWL acquired Heinz India, whose portfolio too had market leadership positions in niche categories catering to health & wellness segments. Portfolio of Heinz included Glucon D, Complan, Nycil and Sampriti Ghee. ZWL aims to combine healthcare, nutrition and cosmeceuticals to bring wellness products to enrich life.

Investment Rationale

New launches to maintain growth momentum

ZWL maintained its thrust on new product launches in the key categories. In the last one year, the company has launched 11 new products through brand extensions & variant launches. New products include Sugarfree D'Lite dark chocolate, Nutralite Choco Spread, Nutralite DhoodhShakti ghee & butter, Glucon-D Immunofizz, Complan

Nutrigro and Nycil sanitisers. Nycil “Soothing Body Mist” was launched to address prickly heat and skin rash problems that usually occur in summer. It made its foray into the dairy segment under the Nutralite banner with the launch of Nutralite DoodhShakti Probiotic Butter Spread and Nutralite DoodhShakti Pure Ghee. Some of the new launches done in the earlier quarters are gaining strong traction. Sugarfree Dlite grew by 2x in revenues since its launch. Year one of launch was below par but in subsequent years’ brand registered good traction support by media and promotional activities. Nutralite Mayonnaise is also gaining good traction in the retail format and company is focusing on expanding the reach of the product. Glucon D Immunovolts, which was launched as an immuno booster is been doing reasonably well and gradually gaining good momentum. Everyuth Tan Removal Scrub had seen exciting traction two years prior to the COVID-19 led disruption. The company is planning to launch more new products under different product portfolio both in Indian & international markets. Moreover, there are a lot of white spaces for innovation in the Heinz portfolio - especially in Complian and Nycil. It is expected that ZWL’s focus on new innovations would reap rich dividends in the future as its most recent

ZWL maintained its thrust on new product launches in the key categories. In the last one year, the company has launched 11 new products through brand extensions & variant launches.

launches such as Sugar Lite, Nutralite Mayonnaise & Choco Spread, and Everyuth Tan Removal are contributing to the growth of the company.

Direct distribution reach penetration deepens

Over FY21, ZWL has increased its direct reach to 5.5 lakh outlets from 3.5 lakh outlets earlier under project Vistaar to support new/existing launches. The company has also increased its pharmacy distribution and out of 5 lakh chemists in India, the company already has a presence in 75% of such chemist stores. Apart from Sugar Free, increase in pharmacy chains is also aiding revenue growth of Complian, Glucon-D and Nycil. It has a presence in more than 800 towns now. This aided ZWL’s resilient performance over the last

four quarters despite the strict lockdown restrictions. Simultaneously, it has expanded its e-commerce channel, which has grown 3x in FY21 to reach ~4% of sales (v/s 1% in FY20). Increase in direct reach will help brands such as Complian, Glucon D and Sugarfree to further improve its penetration in the coming years. It has done sales force automation. It is also focusing on improving its rural reach in the coming years.

Cost saving initiatives

Commodity prices have been rising since past few quarters. However, ZWL has been able to maintain its margins owing to several cost saving initiatives (including price hike of 2% this quarter). With an intent to become leaner and more efficient through business projects including disintermediation and digitization of processes across the value chain, the company has embarked on the next phase of transformation journey post integration called Transformation 2.0. Under this project the company has initiated a number of projects from sales, supply chain to people functions which will help it become more agile by embracing the digital way of working. The company is expecting to save more than Rs 100mn in the next couple of quarters. ZWL is also undertaking other cost saving initiatives such as efficient freight management and automation in manufacturing, which would further improve its cost efficiency. The company has strong pricing power in rest of its brands. Thus, it can easily pass on any significant inflation in the input prices. The management is confident of achieving higher gross margins in the coming years. A better revenue mix will also aid higher gross margins.

Strong brand portfolio

ZWL top five brands - Glucon-D, Sugar Free, EverYuth Scrub, Peel Off Face Mask and Nycil maintained their leadership positions in their respective categories as on June 21. Zydus is the market leader in artificial low calorie sweetener market enjoying a

Zydus Wellness 3Yr. Price Chart



lion's share of ~82%. Glucon-D has maintained its number one position with a market share of 58.2% in the Glucose powder category. Glucon-D Immunovolt, continued to deliver steady business. Complian which has a market share of 5.5% in the malted food (MFD) category (maintained its no.4 position in HFD category). Nycil maintained its number one position with a market share of 35.2% in the Prickly heat powder category. Everyuth Scrub has maintained its number one position with a market share of 36.9% in the facial scrub category and Everyuth Peel off has maintained its number one position with a market share of 77.6% in the Peel off category. Everyuth brand now has a market share of 6.3% in the overall facial cleansing segment. Nutralite delivered strong growth both in institutional and retail business and the company is gaining market share in this segment.

Q1FY21 result analysis

Zydus Wellness reported strong performance on all front on YoY basis but on QoQ basis performance was a bit subdued due to lockdown. Net Revenue in Q1FY22 increased by 11.2% YoY at Rs. 597.6 crore against Rs. 537.4 crore in Q1FY21 and on QoQ basis it decreased by 1.3% from Rs. 605.7 crore in Q4FY21. EBITDA in Q1FY22 increased by 14.8% YoY at Rs. 140.4 crore against Rs. 122.4 crore in Q1FY21 and on QoQ basis it decreased by 3.4% from Rs. 145.4 crore in Q4FY21.

EBITDA Margin in Q1FY22 came in at 23.5% that improved by 73 bps YoY and declined by 50 bps QoQ. EBITDA Margin for Q1FY21 was at 22.8% and for Q4FY21 was at 24%. Net Profit in Q1FY22 increased by 46.6% YoY at Rs. 130.8 crore against Rs. 89.2 crore in Q1FY21 and on QoQ basis it decreased by 1.8% from Rs. 133.1 crore in Q4FY21. Net Profit Margin in Q1FY22 came in at 21.9% that improved by 529 bps YoY and declined by 9 bps QoQ. Net Profit Margin for Q1FY21 was at 16.6% and for Q4FY21 was at 22%. During the quarter gone by the company's key brands, Sugar Free, Everyuth Scrub and Everyuth Peel Off, Glucon D and Nycil continued to hold strong positions in their respective categories. The company's E-commerce sales witnessed multifold increase during the quarter. The international business also recorded a high double digit growth rate during the period.

Key risks

- Any slowdown in the sales of key discretionary categories or disruption caused by frequent lockdowns
- Steep increase in raw material prices.
- Increase in competition

Valuation

Zydus Wellness has a strong product portfolio in the health & wellness segment. In the last one year, the company has witnessed strong traction in Sugarfree, Glucon-D & Nycil.

Improving penetration of Complian, higher traction for Sugarfree and Glucon D and new products performing well and improved growth of the Everyuth brand coupled with distribution enhancement will be key revenue drivers in the near term. The scale up in the international business and some of the new launches reaching to the maturity will improve the growth prospects in long run. It is expected that the company would be able to grow these brands with the enhancement of its direct distribution & chemist channel network. In the existing brands, the company is planning to introduce more new products and variants. The large opportunity in health and nutrition space gives enough room for existing brands to grow to a sizable level. Moreover, strong gross margins give the company leeway to spend more on advertisements for brand building. With the easing of lockdown restrictions, it is expected that ZWL to deliver stronger performance going forward, owing to its diversified portfolio, slew of new launches over the last two years, expanding international footprint, strong focus on distribution expansion in both rural and urban areas and greater investment in brand-building. Thus, we recommend our investors to BUY the scrip with target of Rs. 2680 from 12 months investment perspective. At the CMP, the scrip is valued at P/E multiple of 33.5x on FY23E Bloomberg consensus EPS of Rs. 68.7.

Particulars (in Rs Cr)	FY20	FY21	FY22E	FY23E
Net Sales	1766.8	1866.7	2064.5	2314.3
Growth (%)	109.6	5.7	10.6	12.1
EBITDA	321.1	344.4	394.3	474.4
EBITDA Margin (%)	18.2	18.4	19.1	20.5
Net profit	141.7	118.7	344.8	437.4
Net Profit Margin (%)	8.0	6.4	16.7	18.9
EPS (Rs)	24.6	18.7	54.2	68.7

Consensus Estimate: Bloomberg, Ashika Research

Ashika Stock Broking Ltd.

Ashika Stock Broking Limited (“ASBL”) started its journey in the year 1994 and is presently offering a wide bouquet of services to its valued clients including broking services, depository services and distributorship of financial products (Mutual funds, IPO & Bonds). It became a “Research Entity” under SEBI (Research Analyst) Regulations 2014 in the year of 2015 (Reg No. INH000000206).

ASBL is a wholly owned subsidiary of Ashika Global Securities (P) Ltd., a RBI registered non-deposit taking NBFC Company. ASHIKA GROUP (details enumerated on our website www.ashikagroup.com) is an integrated financial service provider inter alia engaged in the business of Investment Banking, Corporate Lending, Commodity Broking, Debt Syndication & Other Advisory Services.

There were no significant and material disciplinary actions against ASBL taken by any regulatory authority during last three years except routine matters.

DISCLOSURE

Research reports are being prepared and distributed by ASBL in the sole capacity of being a Research Analyst under SEBI (Research Analyst) Regulations 2014. The following disclosures and disclaimer are an essential part of any Research Report so being distributed.

1) ASBL or its associates, its Research

Analysts (including their relatives) may have financial interest in the subject company(ies). And, the said financial interest is not limited to having an open stock market position in /acting as advisor to /having a loan transaction with the subject company(ies) apart from registration as clients.

2) ASBL or its Research Analysts (including their relatives) do not have any actual / beneficial ownership of 1% or more of securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the source research report or date of the concerned public appearance. However, ASBL's associates may have actual / beneficial ownership of 1% or more of securities of the subject company(ies).

3) ASBL or its Research Analysts (including their relatives) do not have any other material conflict of interest at the time of publication of the source research report or date of the concerned public appearance. However, ASBL's associates might have an actual / potential conflict of interest (other than ownership).

4) ASBL or its associates may have received compensation for investment banking, merchant banking, brokerage services and for other products and services from the subject companies during the preceding 12 months. However, ASBL or its associates or its

Research analysts (forming part of Research Desk) have not received any compensation or other benefits from the subject companies or third parties in connection with the research report/ research recommendation. Moreover, Research Analysts have not received any compensation from the companies mentioned in the research report/ recommendation in the past twelve months.

5) The subject companies in the research report/ recommendation may be a client of or may have been a client of ASBL during the twelve months preceding the date of concerned public appearance for investment banking/ merchant banking / brokerage services.

6) ASBL or their Research Analysts have not managed or co-managed public offering of securities for the subject company(ies) in the past twelve months. However, ASBL's associates may have managed or co-managed public offering of securities for the subject company(ies) in the past twelve months.

7) Research Analysts have not served as an officer, director or employee of the companies mentioned in the report/ recommendation.

8) Neither ASBL nor its Research Analysts have been engaged in market making activity for the companies mentioned in the report / recommendation.

DISCLAIMER

The research recommendations and information are solely for the personal information of the authorized recipient and does not constitute to be an offer document or any investment, legal or taxation advice or solicitation of any action based upon it. This report is not for public distribution or use by any person or entity, where such distribution, publication, availability or use would be contrary to law, regulation or subject to any registration or licensing requirement. We will not treat recipients as customer by virtue of their receiving this report. The report is based upon the information obtained from public sources that we consider reliable, but we do not guarantee its accuracy or completeness. ASBL shall not be in any ways responsible for any loss or damage that may arise to any such person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations.