

HOLD

TP: Rs 1,556 | ▲ 9%

ZYDUS WELLNESS

Consumer Staples

04 August 2023

Poor showing in a seasonally strong quarter

- Flattish revenue growth in Q1 largely driven by a subdued performance in Glucon-D and Complian
- EBITDA margin sheds 470bps YoY on an unfavourable product mix and increased overheads
- Target P/E cut from 22.7x to 22x on muted outlook, leading to a revised TP of Rs 1,556 (vs. Rs 1,631); maintain HOLD

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Subdued growth in a seasonally strong quarter: ZYWL reported flattish sales growth in Q1FY24, largely due to underperformance in *Glucon-D* which normally contributes a significant portion of first-quarter sales due to the summer season. The energy drink saw market share contract 57bps YoY in Q1. The health food drinks (HFD) category posted just 2% YoY growth and ZYWL lost 31bps market share in *Complan*. The company did maintain leadership in four brands – Sugar Free, Glucon-D, Everyuth scrub, Everyuth peel-off face mask, and Nycil.

Margins impacted: Gross margin contracted 170bps YoY to 52.6% primarily due to the unfavourable product mix. EBITDA margin fell 470bps YoY and 370bps QoQ to 16.6% as other expenses increased 14% YoY on account of the high cost of alternative fuel and statutory wage rate hikes which continued to impact manufacturing cost. Profitability was further impacted by a one-time expense of Rs 142mn toward a worker settlement, legal charges, and inventory write-off provisions for the Sitarganj plant. Reported PAT fell 19% YoY but adjusting for exceptional items was down 11% to Rs 1.2bn.

International expansion remains a focus area: ZYWL continues to expand its global presence and operationalised a subsidiary in Bangladesh during the year to expand its presence in the Indian subcontinent. The company aims for 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% share.

Maintain HOLD, TP Rs 1,556: ZYWL has been able to maintain its leadership in key categories, but performance in frontline products slowed during Q1. Margins too felt the pinch from an unfavourable product mix, high cost of alternative fuel and increase in wage rate during the quarter. Market share loss and volume growth decline in the HFD business continue to hurt the company's performance. Considering these negatives, we value the stock at a lower 22x (earlier 22.7x) FY25E P/E multiple, translating to a revised TP of Rs 1,556 (earlier Rs 1,631), and retain our HOLD rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,431
Market cap	US\$ 1.1bn
Free float	23%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 1,791/Rs 1,370
Promoter/FPI/DII	67%/3%/30%

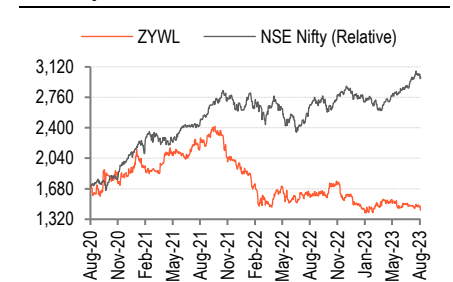
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	22,549	24,458	27,403
EBITDA (Rs mn)	3,373	4,017	4,812
Adj. net profit (Rs mn)	3,205	3,852	4,500
Adj. EPS (Rs)	50.4	60.5	70.7
Consensus EPS (Rs)	50.4	66.2	69.9
Adj. ROAE (%)	6.1	7.1	7.8
Adj. P/E (x)	28.4	23.6	20.2
EV/EBITDA (x)	27.0	22.7	18.9
Adj. EPS growth (%)	0.5	24.0	16.8

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

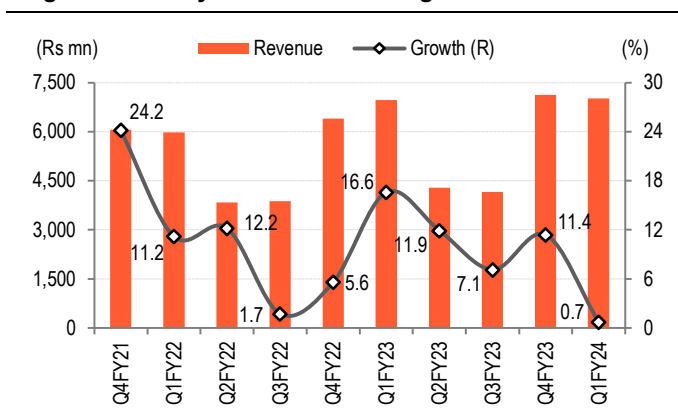


Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	7,021	7,130	6,969	(1.5)	0.7	7805	(10.0)
EBITDA	1,165	1,446	1,482	(19.4)	(21.4)	1694	(31.2)
Adj. PAT	1,246	1,525	1,400	(18.3)	(11.0)	1611	(22.7)
Gross Margin (%)	52.6	50.8	54.3	180bps	(170bps)	53.9	(130bps)
EBITDA Margin (%)	16.6	20.3	21.3	(370bps)	(470bps)	21.7	(510bps)
Adj. PAT Margin (%)	17.7	21.4	20.1	(370bps)	(240bps)	20.6	(290bps)

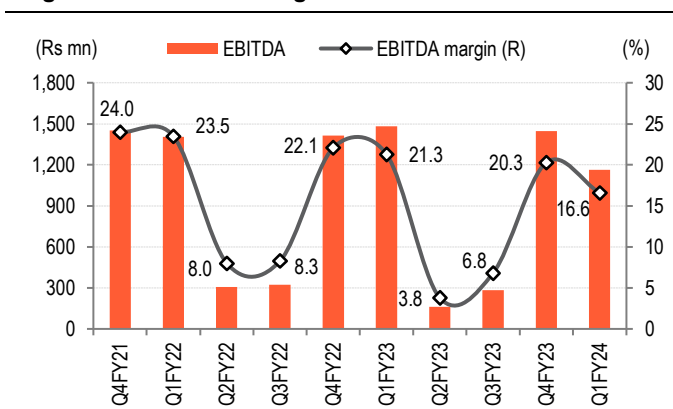
Source: Company, BOBCAPS Research

Fig 2 – Quarterly revenue and YoY growth



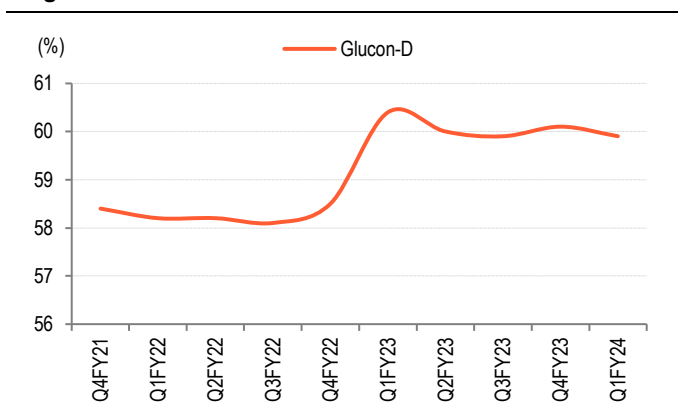
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



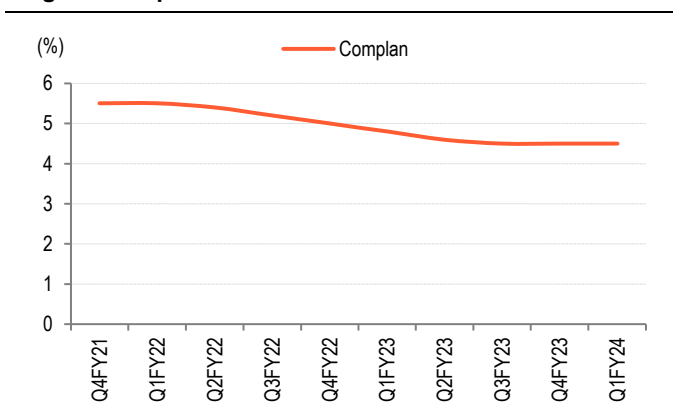
Source: Company, BOBCAPS Research

Fig 4 – Glucon-D market share



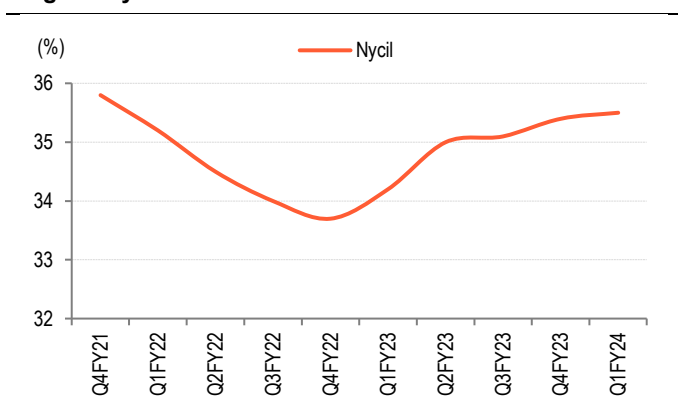
Source: Company, BOBCAPS Research

Fig 5 – Complian market share



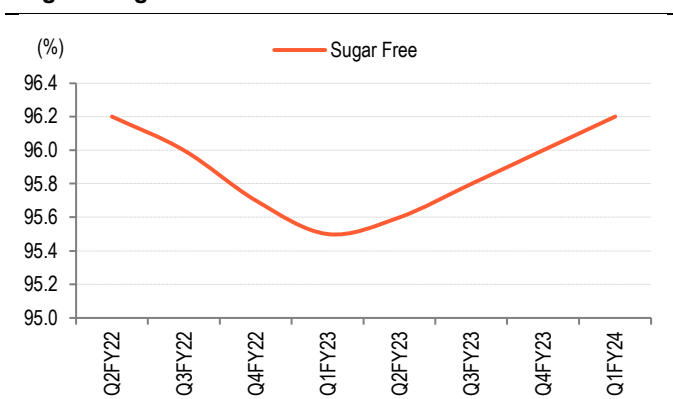
Source: Company, BOBCAPS Research

Fig 6 – Nycil market share



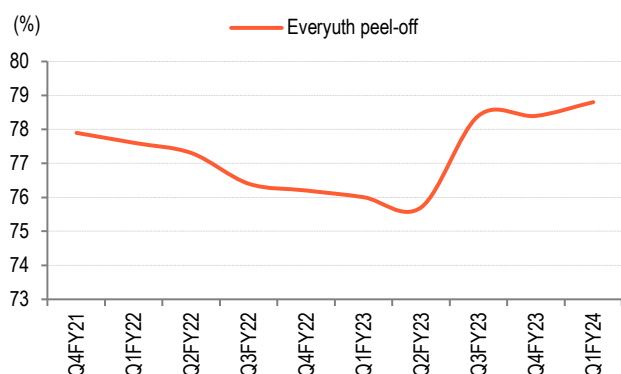
Source: Company, BOBCAPS Research

Fig 7 – Sugar Free market share



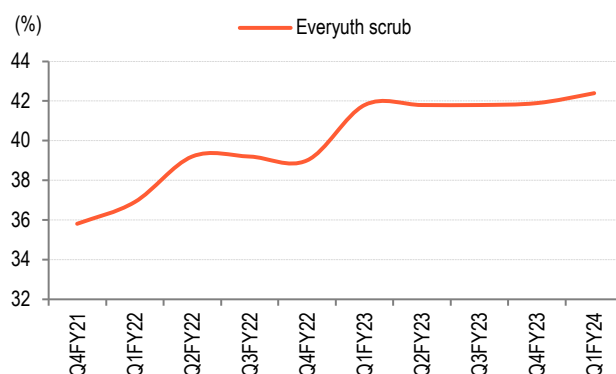
Source: Company, BOBCAPS Research

Fig 8 – Everyuth peel-off market share



Source: Company, BOBCAPS Research

Fig 9 – Everyuth scrub market share



Source: Company, BOBCAPS Research

Earnings call highlights

- FY24 began on a mixed note with revenue growth of just 0.7% YoY to Rs 7bn in Q1FY24, whereas the portfolio excluding *Glucon-D* witnessed near-double-digit growth supported by a 4.5% rise in volumes.
- EBITDA declined 21% YoY to Rs 1.1bn as other expenses grew 14% YoY on account of the high cost of alternative fuel and statutory wage rate increases.
- The company continues to see gross margin improvement for the non-milk-based portfolio, in excess of 100bps YoY. It intends to take appropriate price hikes to address the inflation in milk in coming quarters.
- *Glucon-D* which typically contributes a significant proportion of overall sales in the April-June quarter was hit by erratic weather patterns, marked by unseasonal rains across various states. The glucose powder category declined by 3% YoY at the MAT level. *Glucon-D* continues to maintain its number one position with market share of 59.9%, which is a decrease of 57bps YoY.
- *Complan* grew 12% YoY on MAT basis in terms of number of household usage and had 4.5% market share in Q1. The HFD category grew 2% YoY at the MAT level.
- Face scrubs posted modest growth of 6.5% YoY on MAT basis. *Everyuth scrub* continues to maintain leadership with market share of 42.4%, an increase of 42bps YoY. The peel-off category dipped 0.3% YoY MAT. *Everyuth peel-off* has maintained its number one position with market share of 78.7%, an increase of 19bps YoY.
- *Nycil* registered strong growth in Q1 backed by media campaigns for talc and body mist. The prickly heat category fell 4.5% YoY MAT. *Nycil* has retained its top position with market share of 35.5%, an increase of 117bps YoY.
- *Nutralite* registered robust growth for the quarter. The company is focusing on volume-led growth driven by accelerated innovations in coming quarters.

- In the sugar-free category, management remains watchful of the issues related to aspartame. Apart from the advisory by WHO, negative statements about the category have created headwinds and led to lower adoption. Stevia-based products have seen faster adoption and high-double-digit growth. ZYWL is looking at introducing more products under the sugar-free category with a greater focus on ingredients such as sucralose and stevia.
- ZYWL aspires to strengthen its presence in international markets and has, accordingly, entered Bangladesh.
- Management also plans to strengthen its digital journey by implementing data analytics and warehouse management systems.

Valuation methodology

ZYWL has been able to maintain its leadership in key categories, but performance in frontline products slowed during Q1FY24. Margins too felt the pinch from an unfavourable product mix, high cost of alternative fuel and increase in wage rate during the quarter. Market share loss and volume growth decline in the HFD business continue to hurt the company's performance.

Considering these negatives, we value the stock at a lower 22x (earlier 22.7x) FY25E P/E multiple, translating to a revised TP of Rs 1,556 (earlier Rs 1,631). Maintain HOLD.

Key risks

Key upside risks to our estimates are:

- volume growth in key categories, and
- margin expansion

Key downside risks to our estimates are:

- continued 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	14.1	4,799	5,844	BUY
Dabur India	DABUR IN	12.3	570	669	BUY
Godrej Consumer Products	GCPL IN	12.7	1,018	1,159	BUY
Hindustan Unilever	HUVR IN	72.8	2,546	3,069	BUY
ITC	ITC IN	68.8	455	523	BUY
Marico	MRCO IN	9.0	576	646	BUY
Nestle India	NEST IN	26.3	22,455	26,430	BUY
Tata Consumer Products	TATACONS IN	9.4	835	994	BUY
Zydus Wellness	ZYWL IN	1.1	1,431	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 4 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	18,667	20,091	22,549	24,458	27,403
EBITDA	3,444	3,447	3,373	4,017	4,812
Depreciation	252	236	250	273	317
EBIT	3,192	3,211	3,122	3,745	4,495
Net interest inc./(exp.)	838	255	161	136	60
Other inc./(exp.)	89	104	49	73	65
Exceptional items	1,321	0	101	1	1
EBT	1,122	3,060	2,910	3,681	4,499
Income taxes	(65)	(29)	(195)	(170)	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	3,851	4,499
Adjustments	1,321	0	101	1	1
Adjusted net profit	2,509	3,088	3,205	3,852	4,500

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	4,386	3,643	3,133	3,314	3,595
Other current liabilities	470	345	386	419	469
Provisions	312	347	410	433	469
Debt funds	5,498	3,815	2,925	1,800	700
Other liabilities	321	333	250	266	292
Equity capital	636	636	636	636	636
Reserves & surplus	45,042	47,804	50,590	53,478	56,853
Shareholders' fund	45,678	48,440	51,227	54,115	57,489
Total liab. and equities	56,664	56,922	58,331	60,347	63,014
Cash and cash eq.	1,737	1,154	370	1,374	2,576
Accounts receivables	943	1,423	2,078	2,254	2,525
Inventories	3,647	3,616	4,575	4,839	5,249
Other current assets	2,142	1,673	1,356	1,469	1,644
Investments	0	270	700	700	700
Net fixed assets	1,996	2,445	2,704	3,023	3,405
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	1,619	1,814
Other assets	219	268	300	320	351
Total assets	56,664	56,922	58,331	60,347	63,014

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	2,866	2,409	930	3,721	4,347
Capital expenditures	(197)	(754)	(450)	(600)	(700)
Change in investments	(19)	(205)	(413)	0	0
Other investing cash flows	111	100	14	(74)	(161)
Cash flow from investing	(104)	(860)	(848)	(674)	(861)
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)	(136)	(60)
Dividends paid	(2)	(319)	(319)	(963)	(1,125)
Other financing cash flows	(1,324)	(12)	(17)	0	0
Cash flow from financing	(2,164)	(2,338)	(1,385)	(2,223)	(2,284)
Chg in cash & cash eq.	599	(829)	(1,316)	994	1,202
Closing cash & cash eq.	2,526	1,697	381	1,374	2,576

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	18.7	48.6	48.8	60.5	70.7
Adjusted EPS	39.4	48.6	50.4	60.5	70.7
Dividend per share	118.0	74.5	12.2	15.1	17.7
Book value per share	718.2	761.6	805.4	850.9	903.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	4.9	4.5	4.0	3.7	3.3
EV/EBITDA	26.4	26.4	27.0	22.7	18.9
Adjusted P/E	36.3	29.5	28.4	23.6	20.2
P/BV	2.0	1.9	1.8	1.7	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	105.8	100.9	106.7	104.6	100.0
Interest burden (PBT/EBIT)	37.2	96.2	99.4	102.8	100.1
EBIT margin (EBIT/Revenue)	17.1	16.0	13.8	15.3	16.4
Asset turnover (Rev./Avg TA)	32.9	35.3	38.7	40.5	43.5
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.1	1.1	1.1
Adjusted ROAE	2.6	6.4	6.1	7.1	7.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	5.7	7.6	12.2	8.5	12.0
EBITDA	17.0	0.1	(2.2)	19.1	19.8
Adjusted EPS	(24.0)	160.1	0.5	24.0	16.8
Profitability & Return ratios (%)					
EBITDA margin	18.4	17.2	15.0	16.4	17.6
EBIT margin	17.1	16.0	13.8	15.3	16.4
Adjusted profit margin	13.4	15.4	14.2	15.7	16.4
Adjusted ROAE	2.6	6.4	6.1	7.1	7.8
ROCE	6.2	6.1	5.8	6.7	7.7
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	1.8	2.4
Net interest coverage ratio	3.8	12.6	19.4	27.6	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%

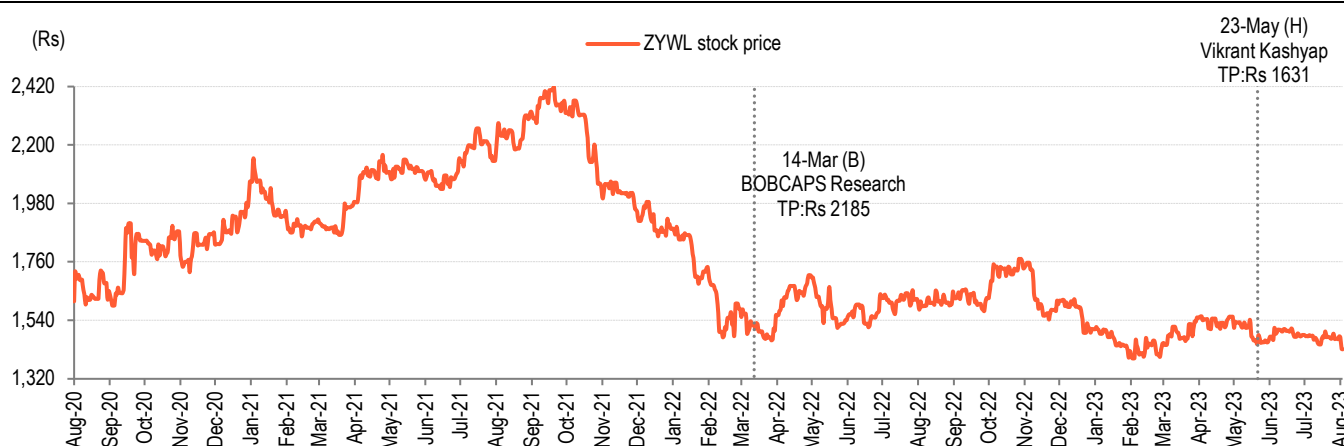
HOLD – Expected return from -6% to +15%

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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