BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 2,185 | ⮝ 45%

ZYDUS WELLNESS | Consumer Staples | 14 March 2022

Robust health and wellness portfolio – initiate with BUY

- **Product innovation, distribution expansion and Heinz India merger synergies expected to aid brisk PAT CAGR of 11% for FY21-FY24**
- **Leading niche wellness brands (Sugar Free, Everyuth, Glucon-D, Nycil) and low market penetration rates offer long-term growth opportunity**
- **Initiate coverage with BUY and TP of Rs 2,185 (45% upside) set at 38x FY24E EPS, ~10% premium to peers**

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Synergies from Heinz integration to drive topline and margins: We expect ZYWL's Heinz India acquisition to be value accretive given (a) substantial scale advantages in distribution and media buying alongside higher bargaining power with suppliers, (b) cross-leveraging of distribution strengths (ZYWL's strength in chemist/specialty stores and Heinz's in general trade/wholesale channels), (c) faster product launches backed by blended R&D, (d) warehouse consolidation, (e) benefits of ZYWL's higher A&P spend (~14% of sales), and (f) guided synergies of Rs 400mn-500mn by FY23.

Leadership position and innovation focus to sustain growth: ZYWL is the clear market leader in niche consumer wellness categories such as sugar substitutes (Sugar Free: 96% share), face scrubs/peel-offs (Everyuth: 39.2%/76.4%), glucose powder (Glucon-D: 58.1%) & prickly heat powder (Nycil: 34%). The company has identified white spaces in the market and has the R&D backbone to launch new variants and extensions. Launches (last 36M) contribute ~3% of revenue which management expects to be ~5% in two years. Further, low penetration rates offer a long-term opportunity – reflected in the near-double-digit growth in these categories over the years.

Aggressive distribution expansion: Apart from merger network synergies, ZYWL aims to raise overall/direct reach to 3.5-4mn/0.85-1mn by FY25 from 2.25mn/ 0.57mn. Growth in modern trade and ecommerce channels would further boost sales.

Leaner balance sheet and improving fundamentals: ZYWL acquired Heinz India for Rs 46.7bn (on a pre-acquisition base of Rs 6.5bn), which increased debt, equity dilution and also goodwill on the books. While profit & loss line items strengthened, the balance sheet was negatively impacted with D/E of 0.5x and Rs 25.8bn of equity dilution. This further reduced ROE to 9% in FY19 from 22% in FY18. With an improving revenue trajectory, cost control and minimal increase in capital employed, we expect return ratios to improve from 6% in FY21 to 6.7% in FY24.

Initiate with BUY: We expect a revenue/EBITDA/PAT CAGR of 10%/14.2%/11% over FY21-FY24 to Rs 25bn/Rs 5.1bn/Rs 3.7bn. Initiate with BUY and a TP of Rs 2,185, set at 38x FY24E EPS, for 45% upside potential.

Ticker/Price	ZYWL IN/Rs 1,508
Market cap	US$ 1.3bn
Free float	35%
3M ADV	US$ 1.2mn
52wk high/low	Rs 2,477/Rs 1,430
Promoter/FPI/DII	65%/3%/25%

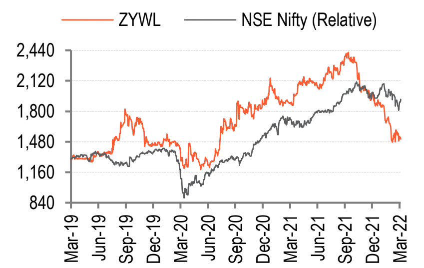
Source: NSE | Price as of 14 Mar 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	18,667	20,018	22,171
EBITDA (Rs mn)	3,444	3,773	4,412
Adj. net profit (Rs mn)	2,677	3,203	4,039
Adj. EPS (Rs)	37.6	50.0	63.2
Consensus EPS (Rs)	37.6	48.8	64.3
Adj. ROAE (%)	4.6	6.0	7.6
Adj. P/E (x)	40.1	30.1	23.9
EV/EBITDA (x)	32.1	27.8	22.2
Adj. EPS growth (%)	25.4	20.5	26.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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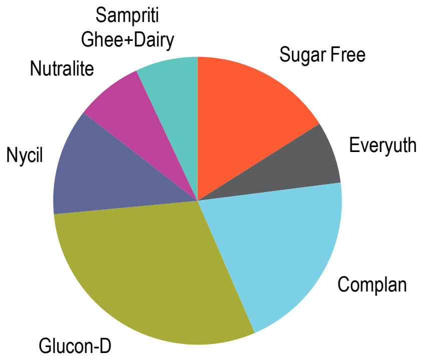
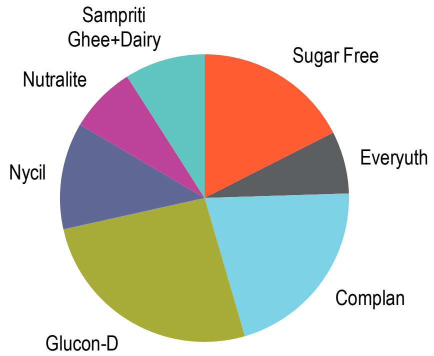


Source: Company, BOBCAPS Research

Fig 2 – Brand-wise revenue breakup, FY21



Source: Company, BOBCAPS Research

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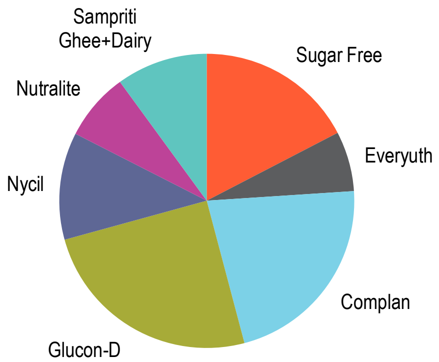
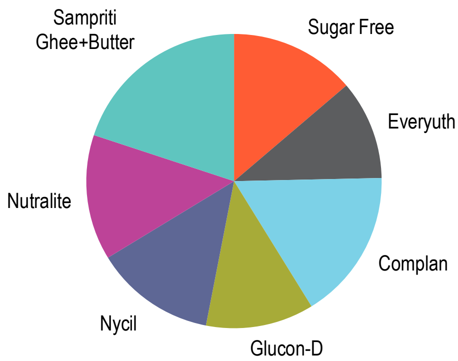


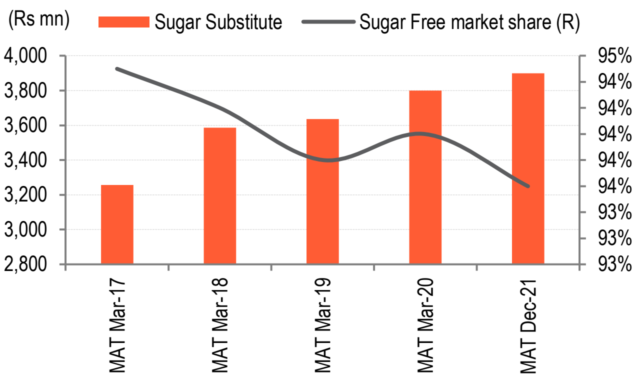
Source: Company, BOBCAPS Research

Fig 4 – Brand-wise revenue CAGR, FY21-FY24E



Source: Company, BOBCAPS Research

Fig 5 – Sugar substitute market and ZYWL's share



Source: Company, Nielsen, Iquiva, BOBCAPS Research

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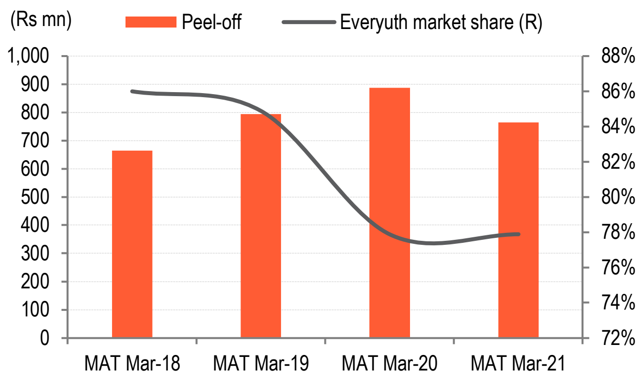
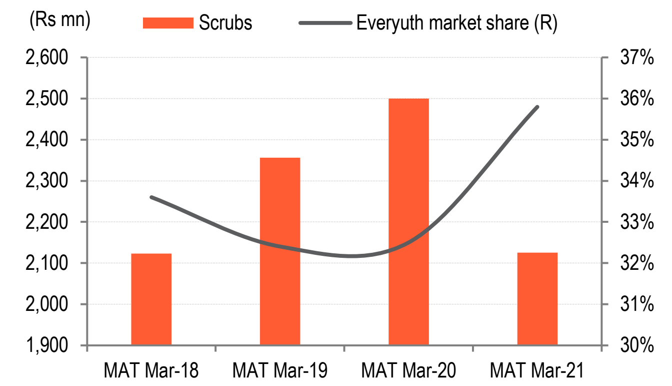


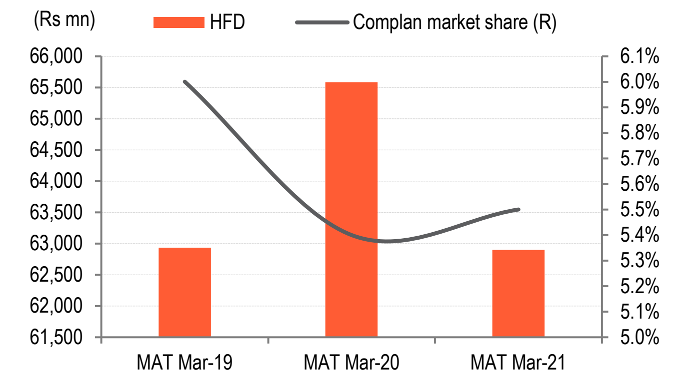
Source: Company, BOBCAPS Research

Fig 7 – Face scrub market and ZYWL's share



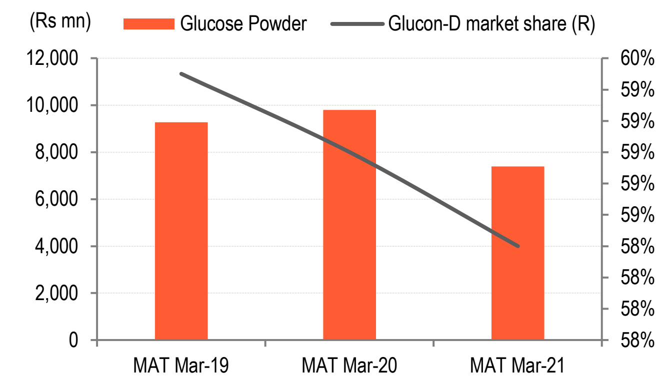
Source: Company, BOBCAPS Research

Fig 8 – Health food drink market and ZYWL's share



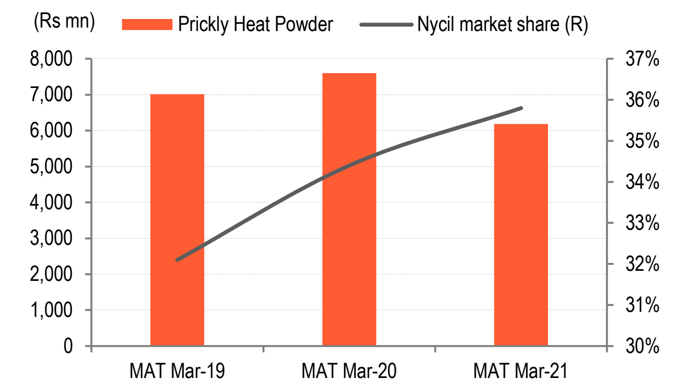
Source: Company, BOBCAPS Research

Fig 9 – Glucose powder market and ZYWL's share



Source: Company, BOBCAPS Research |

Fig 10 – Prickly heat powder market and ZYWL's share



Source: Company, BOBCAPS Research

Note: Across Category is showing decline in FY21 due to inability to capture entire data because of Covid-19 restrictions

Fig 11 – Increased market penetration and innovations

Source: Company PPT, BOBCAPS Research

Fig 12 – Brand market share as on MAT Dec 21'

Source: Company, BOBCAPS Research

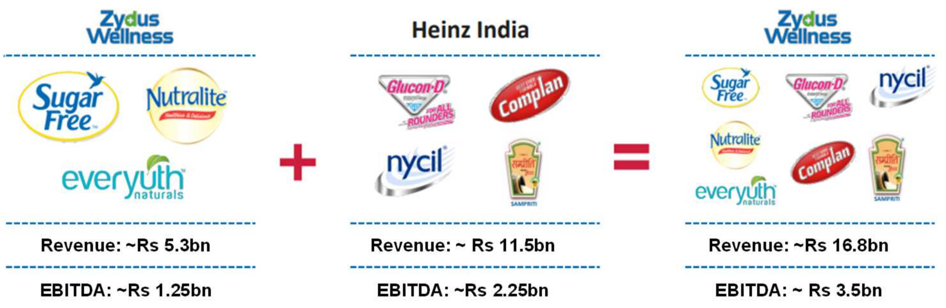
Investment rationale

Heinz acquisition to deliver strong synergies

The acquisition of Heinz India in Jan'19 has significantly enhanced ZYWL's product basket, expanding its ownership to popular brands such as Complan (health food drink), Glucon-D (glucose power) and Nycil (prickly heat powder). The acquisition cost of Rs 46.7bn was funded through a mix of debt and equity. The deal also included two large manufacturing units in Aligarh (Uttar Pradesh) and Sitarganj (Uttarakhand), teams devoted to operations, research, sales, marketing and support, and a network of more than 800 distributors and 20,000 wholesalers in 29 states. Management estimates the merger will fuel synergies to the tune of Rs 400mn-500mn by FY23.

On the flip side, the acquisition has brought seasonality into the portfolio with Nycil and Glucon-D, which contribute 35-40% of revenue, being summer-centric products with >80% of sales coming during the months of March-June.

Fig 13 – ZYWL's product portfolio post Heinz India acquisition



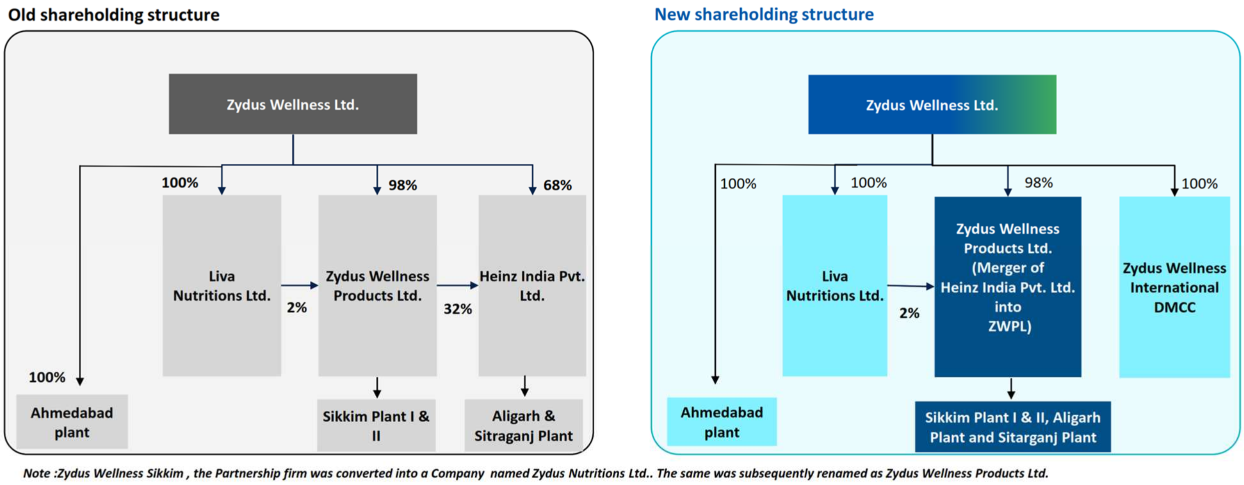
Source: Company, BOBCAPS Research | Data for 12M ended 30 Jun 2018

Fig 14 – Source of funds for acquisition of Heinz India's consumer business

Investor	Source of Funds	Investment (Rs bn)	% of Acquisition cost
Cadila Healthcare	Equity	11.75	25
Zydus Family Trust	Equity	3.00	6
True North	Equity	10.00	21
Pioneer Investment Fund	Equity	1.00	2
9.14% secured, Redeemable NCDs	Debt	15.00	32
Internal Accruals	Cash	5.95	13

Source: Company, BOBCAPS Research

Fig 15 – Acquisition structuring



Source: Company, BOBCAPS Research

Heinz portfolio had lost ground due to lack of focus and innovation

Owing to the erstwhile parent company's lack of focus on Indian operations, Heinz India had reported subdued revenue and margins for the last 5-6 years, besides losing product market share. For instance, Complan's share has slipped from 10% to 5.5% over the last five years. Nycil's market share also declined from 45% in the early 2000s to 32% in FY19. These losses were primarily due to the absence of product innovation in the face of changing consumer demands.

Fig 16 – Heinz India's growth metrics

Y/E March (%)	FY14	FY15	FY16	FY17	FY18
Revenues	(6.6)	9.6	(10.0)	1.7	(7.3)
EBITDA	(44.3)	79.7	18.7	(24.2)	(47.0)
PAT	(26.8)	30.2	10.4	(20.2)	(47.9)
EPS	(26.8)	30.2	10.4	(21.6)	(50.0)

Source: Company, BOBCAPS Research

Synergy benefits to reinvigorate existing and acquired brands

Following the acquisition, ZYWL has transformed Heinz India's sales profile from a season-neutral pharmacy-oriented network with pan-India distribution to a summer-oriented general trade & pharmacy network with high concentration in East India. Its average customer age has also reduced from 25+ years to 15+ years. We expect the company to turn season-neutral soon given ZYWL's innovation focus and R&D capabilities. Further, the average penetration level of all portfolio brands now stands at ~20%, which we believe offers high visibility for volume growth.

- **Merger enriches portfolio and offers advantages of scale:** At the time of the acquisition in early 2019, ZYWL's core business had revenue of Rs 5bn from its Sugar Free (sugar substitute), Nutralite (dairy spread) and Everyuth (skincare) brands. The deal enabled the company to diversify its product profile with the addition of glucose powder Glucon-D, health drink Complan, prickly heat power Nycil, and dairy product Sampriti Ghee, having combined annual revenue of Rs 11.5bn at the time.

These brands continue to have a healthy market position and high brand recall. Their revenue and operating margins have also improved significantly in FY20. We believe the acquisition has doubled the size of the core business, thus providing significant economies of scale, including better bargaining power with distributors and savings on media buying.

- **Cross-leveraging of distribution network to expand product availability:** The acquired brands will benefit from ZYWL's well-diversified cosmetic and pharma distribution channel (direct access to nearly three-fourths of domestic chemist stores in the country). Own brands will similarly benefit from Heinz's general trade (GT) channel. Moreover, ZYWL is focused on widening direct distribution coverage under its go-to-market programme, Project Vistaar, wherein it aims to increase overall reach from 2.25mn to 3.5mn-4mn and direct reach from 0.57mn to 0.85mn-1mn by FY25.

  The company has begun leveraging its expanded network via the launch of 'Complan Nutrigro' – a health drink for toddlers over the age of two. The product is focused on doctor and pharmacy channel recommendations. ZYWL also aims to regain the lost medical connect and market share of the original Complan brand that targets children over the age of two and adults.

- **Acceleration of product launches:** The company has been proactively launching new product variants and is working to scale up acquired brands so as to capitalise on portfolio synergies. For instance, recent brand extensions include Glucon-D ImmunoVolt, Complan Nutrigro and Nutralite Chocospread.

Established leadership in niche wellness products

ZYWL is the undisputed market leader (as on Dec'21) in Sugar Free (96.0% share), Everyuth face scrubs/peel-offs (39.2%/76.4%), Glucon-D (58.1%) and Nycil (34%). The integration of Heinz India has not only broadened the portfolio with the addition of popular, household brands and widened the addressable market, but also curbed revenue concentration. We believe the company's product innovation focus and strong distribution coupled with low penetration of wellness categories in India offers a significant long-term opportunity, as reflected in the near-double-digit growth in these categories over the years.

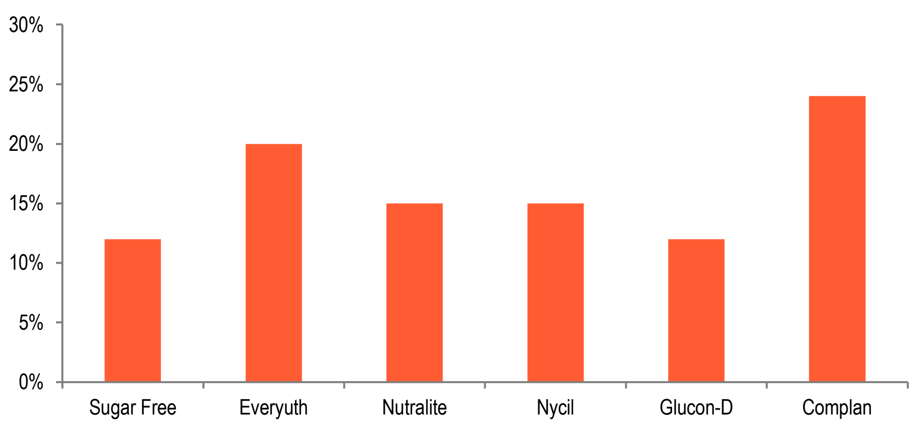
Prior to the Heinz deal, ZYWL's flagship Sugar Free brand contributed over 65% of revenues (FY18). Post-acquisition, Sugar Free's contribution to sales has come down to ~18% (FY21), with the newly added Glucon-D and Complan brands leading the way at 26% and 21% respectively. Personal care offerings Nycil (acquired) and Everyuth (own) form 12% and 7% of sales respectively, while Nutralite contributes ~8%.

Fig 17 – Brand revenue and analysis

Brand	Revenue Share FY21 (%)	Revenue Share FY21 (Rs mn)	Retail Penetration (%)	Market Share FY21 (%)	Key Competitors	Future Strategy	Seasonality
Sugar Free	~18	3,267	12	93.6	Sweet & Healthy (Wipro), Kaloree (Mankind), Splenda (Heartland Food Products), Equal (Merisant)	Distribution expansion through Heinz India's wide general network International expansion Launch of new product variants	Non-seasonal
Everyuth	7	1,307	20	Peel off: 77.9 Scrub: 35.8 Facial: 6.1	Ponds (HUL), Fair & Lovely (HUL), Nivea (Nivea), Garnier (Loreal), Biotique (Bioveda Action Research), Himalaya (Himalaya Drug Co), Lotus (Lotus Herbals)	Synergy from GT distribution network Launch of new products International expansion to newer geographies	Non-seasonal
Nutralite	~8	1,400	15	NA	Amul, Britannia, Delicious	Launch of new product variants Volume growth focus	Non-seasonal
Glucon D	26	4,853	12	58.4	Glucose D (Dabur), GlucoVita (Wipro)	Reduce seasonality through launch of new products	Seasonal with 80% revenue in Summer
Complan	21	3,920	24	5.5	Horlicks – 44%, Boost 11% (GSK/HUL), Bournvita – 15% (Mondelez)	Launch of new variants backed by R&D team Distribution synergies – pharmacy channels Pan-India focus	Seasonal with 90% revenue in Summer
Nycil	12	2,240	15	35.8	Boroplus (Emami), Dermicool (RB), Shower to Shower (ITC)	Reduce seasonality through launch of winter products Can create a Nycil mother brand	Seasonal with 90% revenue in Summer
Sampriti Ghee + Dairy	~9	1,680	NA	NA	Highly fragmented market with only 2 players holding >10% market share	Multiple growth drivers include expansion of the retail channel and innovating through value-added dairy launches	Non-Seasonal

Source: Amazon, Flipkart, BOBCAPS Research

Fig 18 – Low retail penetration across brands provides large growth opportunity



Source: Company, BOBCAPS Research

Focus on innovation to drive growth

The scope and ability to frequently launch product variants and extensions serves as a key growth driver in the consumer wellness category. Over the last 2-3 years, ZYWL has ramped up its existing portfolio with launches such as Sugar Free Green and SugarLite in artificial sweeteners, entry into tan removal and face wash in the Everyuth facial care segment, and introduction of mayonnaise in the Nutralite spreads segment.

In all, ZYWL rolled out 11 new products during FY21. We see further potential for growth in products such as (1) Glucon-D (the company has been relentlessly offering innovative products around immunity boosting), (2) Nutralite (providing low calorie and healthy alternatives to table margarine), (3) Nycil (master brand in skincare category), and (4) Complan (addressing white spaces in the segment to gain market share).

The company's brand recall and market leadership coupled with increasing health aspirations among Indian consumers bodes well for new products, and we see ample room for fresh variants, formats and extensions within its existing and new categories. Launches over the last 36 months contribute ~3% of current revenue, which management expects will rise to 5% over the next two years. We discuss the positioning, innovative extensions and growth prospects of each of the key brands below.

Fig 19 – Potential white spaces that can be explored

Glucon-D	Complan	Nycil	Nutralite
Energy capsules	Women's Health	Baby Prickly Heat Powder	Sandwich Spread (Dr Oetkar)
Sports drinks (Gatorade)	Mother's Health	Anti-rash Creams for Babies	Garlic Butter (Amul)
Ready to Drink (Tata Plus)	Adult / Old Age	Lotions and Moisturizers	Hazelnut Spread
Oral Rehydration Salt (Electral) sachets powder and Ready to Drink	Protein	Female Hygiene	
	Lite (less sugar)		
	Weight Loss		
	Ready to Drink		

Source: Company, BOBCAPS Research

#1 Glucon-D: Growth to be driven by innovation

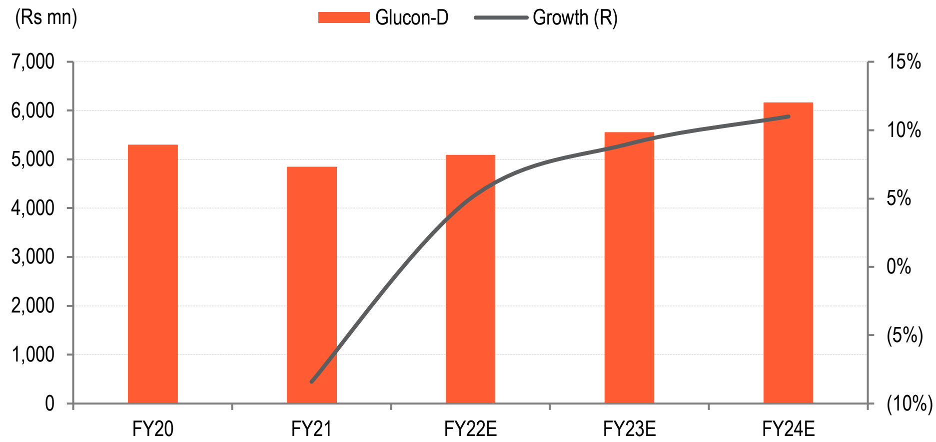
ZYWL's Glucon-D brand commands ~60% of India's ~Rs 10bn glucose powder market and has remained the dominant leader over the last few years. It is the largest contributor to ZYWL's revenue (~26% in FY21) aided by a distribution reach of 1.7mn stores. Glucon-D is positioned as an energy booster with different variants covering the need for different vitamins. Being a summer product, ~80% of sales occur from January-June. However, due to Covid-19 restrictions, FY21 and FY22 were washout years for summer-centric products.

Expect 8.3% revenue CAGR over FY21-FY24

The glucose powder category has a target audience of children to adults up to 25 years of age and also athletes. The category grew ~11% CAGR and we expect mid-double-digit growth from FY23 as demand normalises. In our view, ZYWL's largest brand has ample potential to expand given its low penetration of ~12% and ability to defend market share over a long period despite the presence of large players such as Dabur and Wipro in the category.

We expect Glucon-D to continue to grow 8.3% CAGR over FY21-FY24E, helped by the introduction of new variants (ImmunoVolt), increased brand investment along with mass media support and competitive trade offers (a key to win in the category). As the product is confined to the summer season, the company can potentially de-risk it by transforming it into a wider energy and functional drink.

Fig 20 – Glucon-D revenue and growth



Source: Company, BOBCAPS Research

Fig 21 – Competitor pricing comparison

Company	Brand	Powder	Tablet	Ready to drink	Flavour	Pack Size	Rs/gm
ZYWL	Glucon D	Yes	Yes	No	Nimbu Paani, Orange, Regular, Strawberry,	100gm, 200gm 450gm, 1kg	0.33
Dabur	Glucose-D	Yes	No	No	Orange, Lemon, Regular	125gm, 250gm, 450gm, 500gm, 1kg	0.33
Wipro	GlucoVita	Yes	Yes	No	Orange, Green Mango, Strawberry	250gm, 400gm, tube packs	0.33
FDC	Enerzal	Yes	No	Yes (Tetrapack and PET bottle)	Orange, Lime, Apple	50gm, 100gm, 500gm, 1 kg, 200ml, 400ml	0.33

Source: Company, BOBCAPS Research

Fig 22 – Strengthening "Energy" credentials and expanding the uses

Source: Company, BOBCAPS Research

#2 Sugar Free: Flagship brand with strong moats

Launched way back in 1988, Sugar Free is ZYWL's flagship brand and enjoys a near monopoly in the ~Rs 3.2bn sugar substitute category with ~96% market share. More than 70% of the sales comes from chemist/pharmacy channels. The company offers five variants – Sugar Free Natura (Sucralose based), Sugar Free Gold (Aspartame based) and Sugar Free Green (Stevia based) – besides recently launching Sugar Lite to compete in the regular sweetener segment.

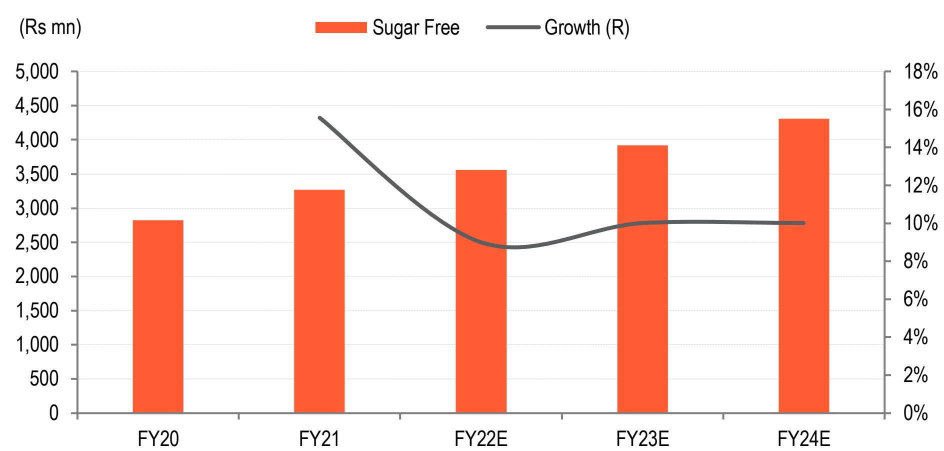
Aimed at the health conscious, Sugar Free Green is positioned as a 100% natural substitute because it is derived from Stevia leaves – approved by the WHO, USFDA and FSSAI as a safe artificial sweetener. Sugar Lite is a blend of sugar and Stevia leaves that has 50% fewer calories than normal sugar. These new categories contribute only 2-3% of sales in the category but have been growing in high double digits over the last few quarters and are hence expected to ramp up revenue share.

Expect 9.7% revenue CAGR over FY21-FY24

Despite the entry of several players, ZYWL has been able to maintain its leadership position in sugar substitutes even as the brand has become synonymous with the category. We believe the company has built a strong moat in a category that has vast potential to grow over the next few years given India's ballooning diabetic population and increasingly health-conscious urban consumer. Apart from its first-mover advantage, ZYWL has been able to consolidate its leadership due to the absence of any significant product differentiation from competitors. A strong distribution reach has been the other key enabler for the company.

We expect Sugar Free to grow at CAGR of 9.7% over FY21-FY24 led by more adjacent launches (such as Sugarfree D'lite chocolates), rising diabetes, lower penetration, higher spends, product availability and variations.

Fig 23 – Sugar Free revenue and growth



Source: Company, BOBCAPS Research

Fig 24 – Competitor pricing comparison

Parameter	Sugar Free Gold	Sweet n Healthy	Sugar Free Natural	Equal
Manufacturer	ZYWL	Wipro	ZYWL	Higer Health Sciences
MRP (Rs)	270	270	300	370
Number of Tablets	500	300	500	600
Cost/tablet (Rs)	0.54	0.90	0.60	0.62

Source: Amazon, BOBCAPS Research

Rising diabetic population in India to drive Sugar Free growth

India is the largest consumer of sugar in the world at ~26mtpa and also has the second largest population of diabetic patients (~74mn vs. China at ~141mn). As per the International Diabetes Federation (IDF), the number of diabetics in India is expected to increase from ~74mn in 2021 to ~125mn by 2045 (20-79 age group). It is also estimated that ~57% of adults with diabetes or 53mn people are undiagnosed.

IDF projects that by 2045 India would have more than 20% of the world's diabetics, surpassing China. With the rising incidence of lifestyle diseases in India, we believe the consumption of niche health products such as Sugar Free and Nutralite will increase. In our view, ZYWL is well placed to capture this growing opportunity as the largest player in the segment with strong brand recall.

Fig 25 – Sugar Free product timeline

Year	Innovation
1988	Launched Sugarfree with Aspartame
2005	Launched Sugarfree Natura with Sucralose
2017	Launched Sugarfree green with Stevia
2018	Launched Suagrlite; Sugarfree Veda (ayurvedic Sugafree green)
2019	Launched Sugafree S'lite Chocolates

Source: Company, BOBCAPS Research

Fig 26 – Sustained innovation and rising market penetration to drive growth

Source: Company, BOBCAPS Research

#3 Complan: Deeper penetration, innovation to aid market share

Complan, a household name in India's ~Rs 110bn malt-based beverage category, has witnessed a downward spiral over the past decade following a frequent change of hands – from GSK to Kraft Heinz and then to ZYWL – as well as frequent changes in formulation and positioning. In 2013 it was outrun by Bournvita, which took over the second spot in the segment after market leader Horlicks. Complan's attempt to gain lost ground by rehashing its product formulation in 2014 also backfired as it made the drink "less healthy than before". Distribution also fell to 450,000 outlets from its peak of 650,000 outlets.

Owing to these missteps, Complan's share in the malt-based beverage category, which stood at more than 15% in the early years of the last decade, has dwindled to just 5.5% in FY21. Currently, rivals Horlicks and Boost together command ~55% of the malt beverage market, followed by Bournvita at 15%, PediaSure and Ensure at 9%.

Expect ~12% revenue CAGR over FY21-FY24

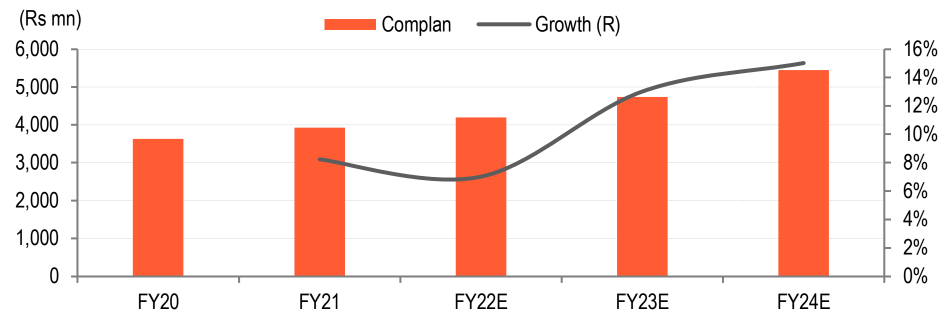
As per industry estimates, India is the world's largest malt-based drinks market at ~Rs 110bn and accounts for 22% of global retail volume sales. These drinks are traditionally consumed as milk substitutes and marketed as nutritious products. In addition, Indian households are likely to double their spends on health-focused foods and beverages in the next five years as consumers increasingly switch over to healthier alternatives and buy foods with better ingredients.

To regain lost share, ZYWL has crafted a strategy to rapidly expand the brand's reach in smaller towns and rural markets, besides reinstating its original positioning of offering "2x faster growth for growing kids". The company further aims to enhance market share through higher media spends, consumer promotions and advocacy through doctors. It has also relaunched 'Complan Nutrigro', a health supplement targeted at the age group of 2-6 years with a focus on the original positioning of helping children grow stronger. Further, in order to keep the product competitive, the company has not yet increased prices despite raw material inflation.

Though the malt-based drinks market has been growing in low single digits over the last few years (owing to lack of innovation from the market leader), we expect Complan to revive under ZYWL's able leadership, supported by the launch of variants, product activations in new regions and cross-selling through the company's pharmacy chain network which has doubled direct distribution. With penetration at just 24%, we estimate that Complan has headroom to grow at a ~12% CAGR over FY21-FY24.

Tamil Nadu and West Bengal together account for ~30% of Complan's sales. It has the highest market share in the East followed by the South

Fig 27 – Complan revenue and growth



Source: Company, BOBCAPS Research

Fig 28 – Competitor pricing and addressable white spaces

Company	Brand	Target Audience	Potential Market	Protein Content (per 100 gm)	Pack Size (Tetra Pack & Pet Bottle)
ZYWL	Complan	Toddlers: 2-4 years Toddlers: 4-6 years Kids	Toddlers: 0-2 years Women Mothers All adults Protein Lite or Diabetes	18gm	200gm, 450gm 500gm, 750gm, 1kg
HUL	Horlicks	Toddlers: 2-4 years Toddlers: 4-6 years Kids Women Mothers All adults Protein Lite or Diabetes	Toddlers: 0-2 years Lite or Diabetes	11gm	500gm, 750gm, 1kg
Mondelez	Bournvita	Toddlers: 2-4 years Toddlers: 4-6 years Kids Women	Toddlers: 0-2 years Mothers All adults Protein Lite or Diabetes	7gm	75gm, 500gm, 750gm, 1kg, 2kg
Similac	Pediasure and Ensure	Toddlers: 0-2 years Toddlers: 2-4 years Toddlers: 4-6 years Kids Protein (Ensure) Lite or Diabetes (Ensure)	Women Mothers All adults	14.1gm 15.1gm & 30gm	200gm, 400gm, 750gm, 1kg, 2kg
Danone	Protinex	Toddlers: 0-2 years Toddlers: 2-4 years Toddlers: 4-6 years Kids Mothers Protein All adults Lite or Diabetes	Women	34gm	250gm, 400gm, 750gm, 1kg

Source: Amazon, BOBCAPS Research

Fig 29 – Complan: Launch of new flavours and change in positioning

Source: Company, BOBCAPS Research

#4 Everyuth: Strong brand equity in naturals space

Launched in in 1991, Everyuth operates in the skincare category and is positioned as a natural brand with fruit-based face scrubs, masks and peel-offs. ZYWL leads the market in the scrubs and peel-off sub-segments, commanding a share of 39.2% and 76.4% at ~Rs 2.5bn and Rs 0.9bn respectively in Dec 21'. However, in the highly competitive face wash segment, its market share is just over 2%. Overall, India's facial care market is worth ~Rs 29bn, wherein the company has a low 6.5% market share and ranks at No. 5. In our view, ZYWL has been unable to compete with the likes of Ponds, Garnier, Nivea, Wow and Himalaya and will remain a lesser player.

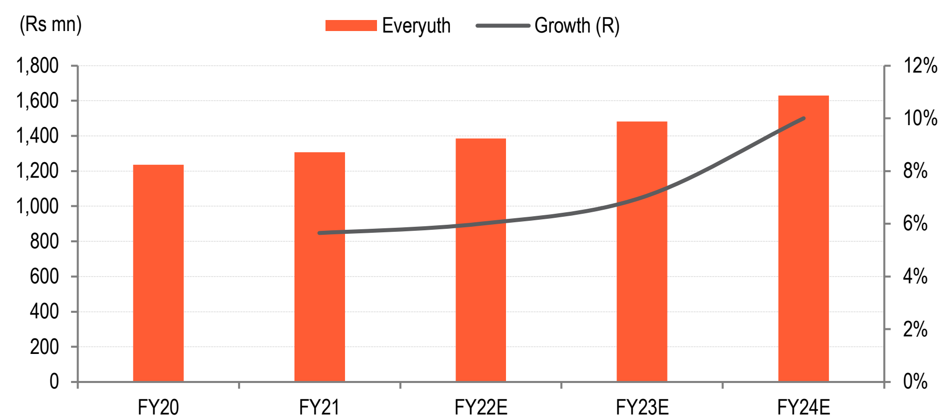
However, over the last four years, there has been a strong consumer shift to the Ayurveda, natural and herbal category in India – one of ZYWL's strengths. Per the industry estimates, India's organic personal care products market is expected to grow from US$ 571mn in FY20 to US$ 1.2bn in FY26, logging a CAGR of 14.7%.

Expect ~8% revenue CAGR over FY21-FY24

In a bid to leverage growing demand in the naturals category and raise its retail penetration from the current 20%, the company recently launched the Everyuth Tan Removal scrub and face pack, increased mass media ad spends in scrubs and peel-offs, revamped the face wash sub-segment, and relaunched its Tulsi Turmeric face wash with new packaging.

The facial care category has grown at ~10%+ over the last 10 years. We believe increasing penetration of scrubs and peel-off masks coupled with premium skincare launches such as tan removal packs would help drive revenue growth for the segment at a CAGR of ~8% over FY21-FY24.

Fig 30 – Everyuth revenue and growth



Source: Company, BOBCAPS Research

Fig 31 – Competitor pricing comparison

Parameter	Walnut Scrub	Walnut Scrub	Bio Walnut Scrub	Walnut Scrub
Manufacturer	ZYWL	Himalaya	Biotique	Lakme
MRP (Rs)	225	135	140	250
Weight (gm)	200	100	100	100
Cost/gm (Rs)	1.13	1.35	1.40	2.50

Source: Amazon, BOBCAPS Research

Fig 32 – Everyuth product timeline

Year	Innovation
FY17	Relaunched Tulsi Turmeric Face Wash
FY18	Launched Scrub with Neem and Papaya as ingredients
FY18	Relaunched Golden Glow Peel-off
FY19	Launched Tan Removal Scrub and Tan Removal Face Pack
FY21	Launched Everyuth Aloe Cucumber Gel
FY22	Everyuth Body Lotion Range as strategic extension into Skincare space

Source: Company, BOBCAPS Research

Fig 33 – Strong brand equity in naturals space

Source: Company, BOBCAPS Research

Fig 34 – Launched Everyuth body lotion as strategic extension into skincare space

Source: Company, BOBCAPS Research

#5 Nutralite: Unlocking brand potential

The Nutralite brand operates in two segments of table spreads and margarine, with market leadership in the latter category. Positioned as a healthier option to butter, ZYWL markets its Nutralite range of products as free from cholesterol, trans fats, and enriched with vitamins. The margarine and spread market, which the company estimates is worth ~Rs 3.5bn, largely caters to institutional customers (HORECA, airlines) that form ~70% of sales. The category has just 15% retail penetration.

ZYWL has also launched Nutralite Doodhshakti butter and ghee products, Nutralite doodhshakti proteins and Nutralite choco spread.

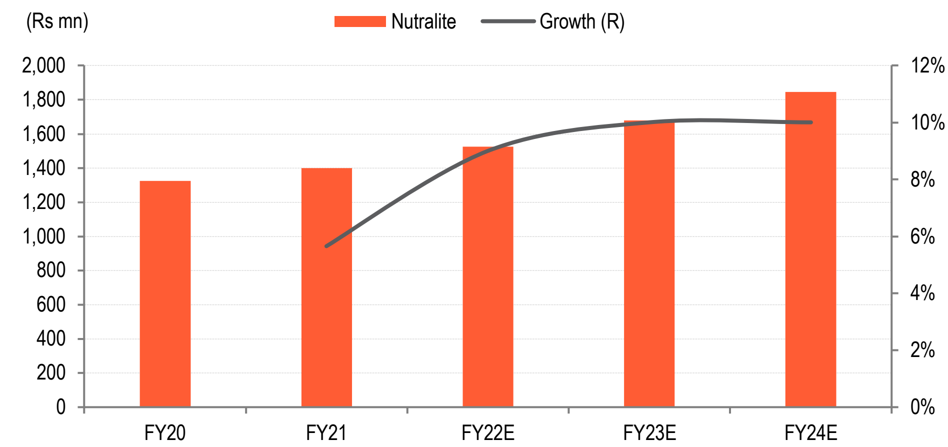
Initiatives taken to transform the Nutralite brand

- ✓ Broader category play
- ✓ Convergence of Sampriti Ghee with Nutralite and launch of Nutralite Doodhshakti Ghee and Probiotic Butter Spread
- ✓ Created new identity for the Food service / Horeca segment – opportunity to widen offerings in the segment
- ✓ Widened the portfolio in spreads with Mayonnaise and launch of Chocospread

Expect ~10% revenue CAGR over FY21-FY24

The company had ventured into the ~Rs 8bn mayonnaise market, which is expected to grow at a strong CAGR of 24.8% over 2022-27, as per EMR findings. We believe Nutralite is a strong brand, which is reflected in its leadership position in the margarine category. Given our expectations of urban growth leading to rural and the increasing shift of consumers towards healthier options, we estimate that the category would grow at ~10% CAGR over FY21-FY24.

Fig 35 – Nutralite revenue and growth



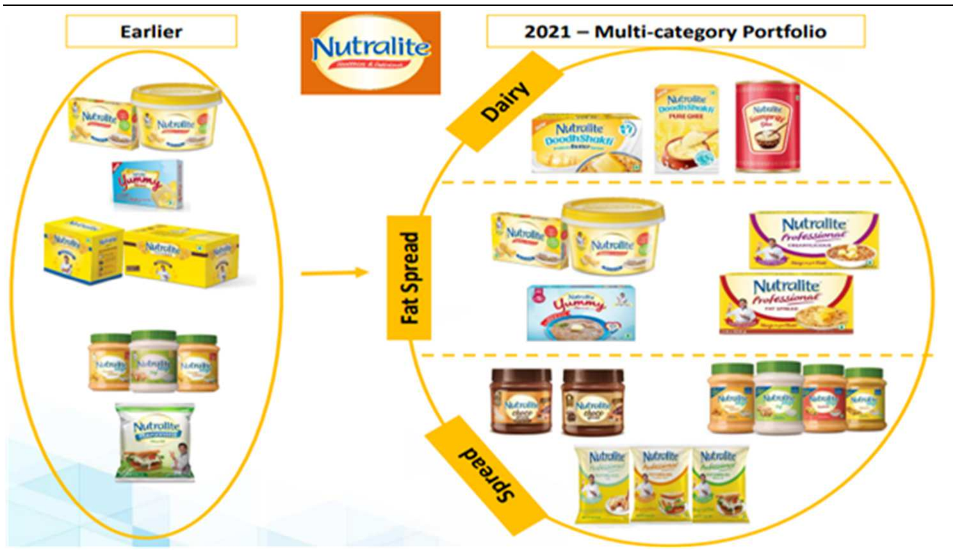
Source: Company, BOBCAPS Research

Fig 36 – Competitor pricing comparison

Parameter	Classic	Bread Spread Lite	Choco Spread	Choco Spread	Mayonnaise (Veg Classic)	Mayonnaise (Veg Classic)
Manufacturer	ZYWL	Amul	ZYWL	Hershey	ZYWL	Veeba
MRP (Rs)	220	195	300	295	95	79
Weight (gm)	500	500	275	350	275	250
Cost/gm (Rs)	0.44	0.39	1.09	0.84	0.35	0.32

Source: Amazon, BOBCAPS Research

Fig 37 – The changing face of Nutralite



Source: Company, BOBCAPS Research

#6 Nycil: Evolving into a skincare brand

With a 50-year heritage, Nycil is a well-known and trusted brand that has 34% share in India's Rs 7bn prickly heat powder market. It has seven variants: Nycil Cool Herbal, Cool Gulabjal, Cool Sandal, Cool Aloe, Cool Lime, Cool Classic, and Classic. The company launched Nycil Hand Sanitizers in 2020 and these are available in two variants – Herbal and Germ Expert.

Nycil has the highest gross margin (~55%) of the four acquired brands as its raw material is outsourced. The brand has a relatively strong presence in North and East India, which the company plans to expand across the country.

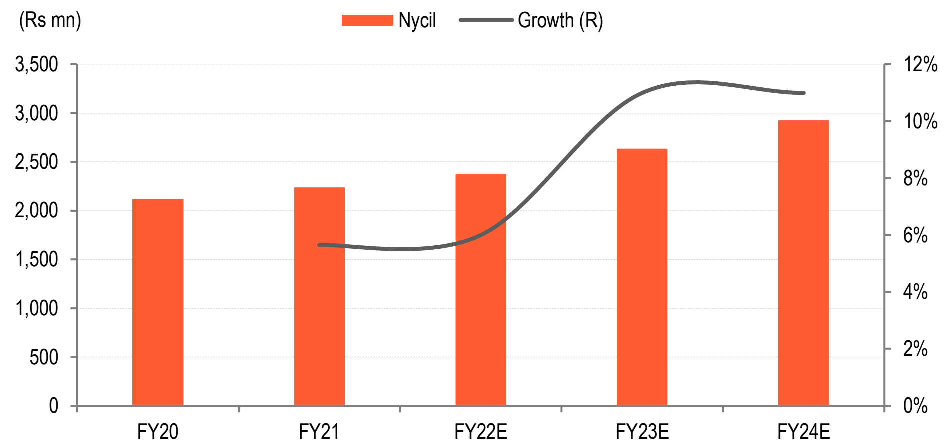
Prickly heat powders are highly seasonal products (April-July) and require astute brand management as purchases are largely problem/need-driven. Following its launch in 1951, Nycil rapidly became synonymous with the category and its success attracted many competitors. Brands such as Shower to Shower (ITC), Dermicool (Paras) Boroplus (Emami) and Candid (Glenmark) entered the fray but have not made much of a dent in Nycil's leadership position.

Expect ~9% revenue CAGR over FY21-FY24

In order to further drive growth, ZYWL has changed its product positioning post the relaunch of new variants which are based on a clinically proven formula and carry new packaging that has received a positive response from the market. It has also altered communication to highlight a "coolness factor", in line with competitors.

To combat seasonality of the product, we believe the company can look for brand extensions as a skincare specialist. In FY21, ZYWL extended into the sanitizer category. In our view, higher A&P spends, new campaigns and product push through the pharma channel will also aid better visibility and growth. We thus expect Nycil to log a 9.3% CAGR over FY21-FY24.

Fig 38 – Nycil revenue and growth



Source: Company, BOBCAPS Research

Fig 39 – Competitor pricing comparison

Parameter	Nycil Cool	Dermicool Prickly Heat	Shower to Shower	Boroplus Prickly Heat Powder	Candid
Manufacturer	ZYWL	Paras	ITC	Emami	Glenmark
MRP (Rs)	115	117	110	110	99
Weight (gm)	150	150	150	150	120
Cost/gm (Rs)	0.77	0.78	0.73	0.73	0.83

Source: Amazon, BOBCAPS Research

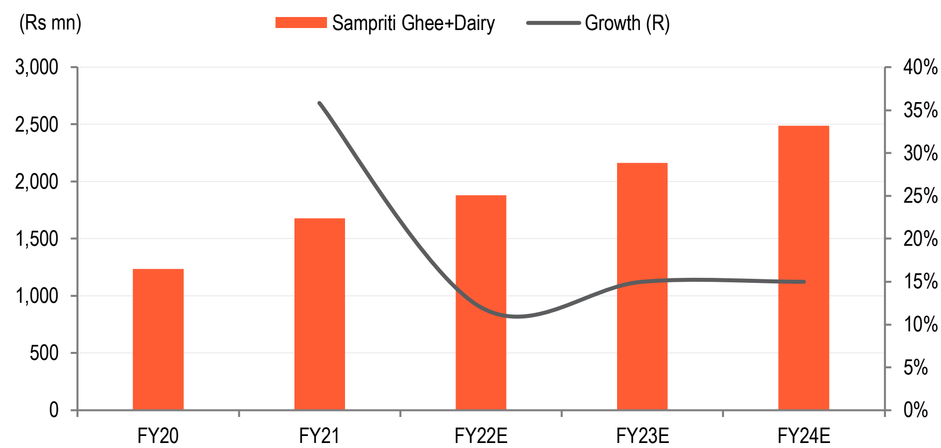
Fig 40 – Nycil brand extensions: Hand Sanitizer, Wipes and Body Mist

Source: Company, BOBCAPS Research

#7 Sampriti Ghee + Dairy: A healthier choice

Sampriti Ghee is a byproduct of Complan and is largely a B2B product. The category is highly fragmented with only two organised players having >10% market share. This segment also includes dairy products. ZYWL entered into the dairy category in FY21 with Nutralite Doodh Shakti, probiotic butter spread and pure ghee. The new launch was supported by print and digital campaigns. We expect revenue from this segment to log a 14% CAGR over FY21-FY24.

Fig 41 – Sampriti Ghee + Dairy revenue and growth



Source: Company, BOBCAPS Research

Aggressive distribution expansion and rising ecommerce focus

Before the Heinz India acquisition, ZYWL had a limited footprint on general trade, modern trade and ecommerce platforms. Post consolidation, the distribution network has been strengthened to include a mix of the company's pharmacy-oriented channels and Heinz's general trade channels. The number of distributors now stands at 800+. During FY21, the modern trade and ecommerce channels accounted for ~14% of revenue, which management is looking to increase to 18-20% during the next 5-7 years.

ZYWL also aims to widen direct distribution coverage – under go-to-market programme, Project Vistaar, it plans to increase overall reach from 2.25mn currently to 3.5mn-4mn by FY25 and direct reach from 0.57mn to 0.85mn-1mn. We expect this to bolster growth in rural areas given rising affordability and increasing consumer awareness on account of easy access to the internet, the company's strong brand campaigns and smaller SKUs.

Average penetration level of the combined portfolio brands now stands at ~20%. Restructuring of the distribution channel will continue to yield benefits as consumer sentiments improve and penetration levels rise across categories in which the company operates, especially considering its market-leading position in five of its six segments.

Fig 42 – Structured distribution network across multiple channels

Channel	Distribution Network
GT or General Trade Channels	Super-stockists, grocers, cosmetic stores
MT or Modern Trade	D-Mart, Metro, Walmart, Reliance Retail
Pharmacy	All medical stores including organised chains like Apollo Pharmacy and MedPlus
Institutional Channels	CSD (Canteen Stores Department) and CPC (Central Police Canteen)
HORECA	Hotels, Restaurants, Catering
Exports	25 countries across Asia, Africa, Middle East and Australia
Ecommerce platforms	Amazon, Flipkart, Big Basket, Grofers, Nykaa, Udaan, Jio Mart

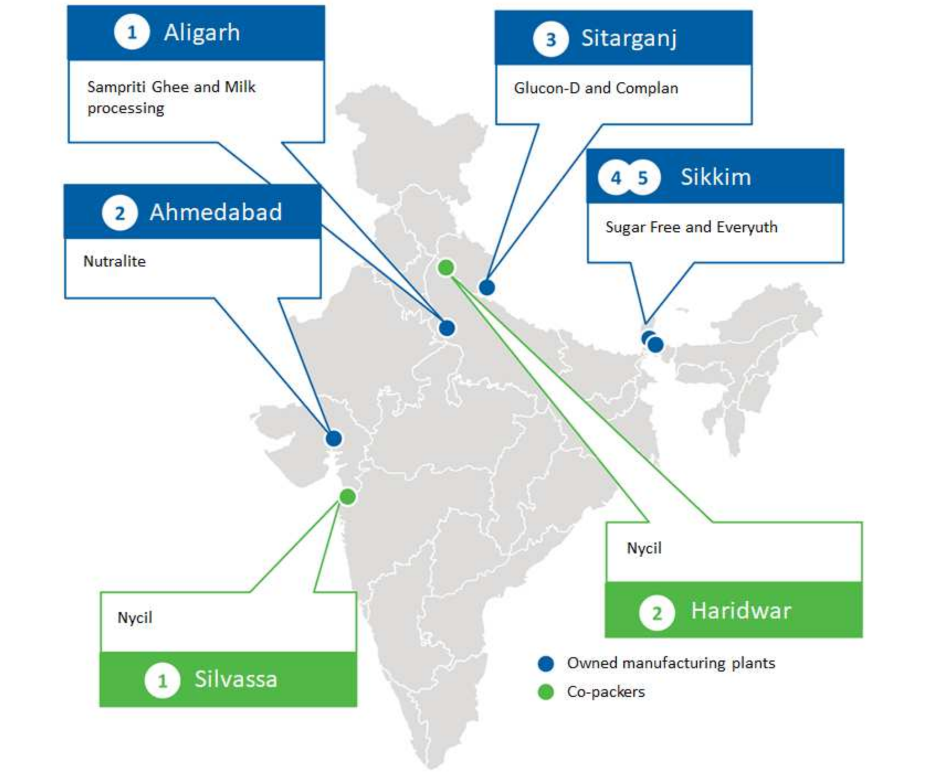
Source: Company, BOBCAPS Research

Fig 43 – Current distribution framework

Channel	Number
Distributor & FOS	1,700 each
CFAs	65
Unified Warehouses	23
Retail Reach	225,000

Source: Company, BOBCAPS Research

Fig 44 – Manufacturing footprint: 5 facilities spread across 4 states



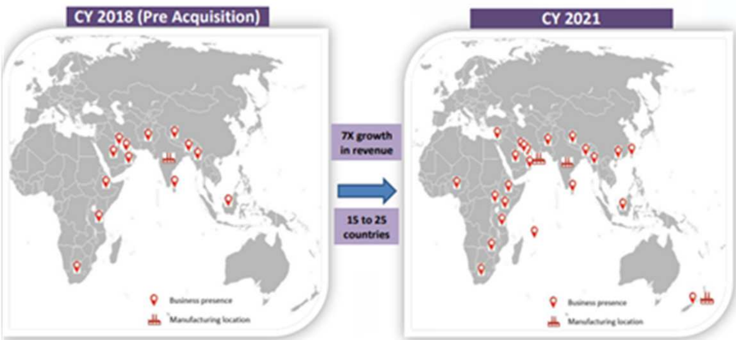
Source: Company, BOBCAPS Research

Widening international footprint

ZYWL has been steadily expanding its global footprint, aiding international business growth of 7x over CY18-CY21. The company entered Nigeria, Taiwan, New Zealand and Kenya in FY21 and has plans to strengthen its presence in the Middle East, Africa, South East Asia and SAARC countries. Complan products were recently launched in the Middle East and Nutralite products have been introduced in Malaysia. During FY20, ZYWL incorporated a new subsidiary in Dubai, Zydus Wellness International DMCC, to manage international operations.

The international business accounted for 3% of consolidated sales during FY21 and ZYWL aims to increase its share to 8-10% over the next few years led by volume growth. We expect this to spur overall topline growth going forward.

Fig 45 – International business guided to cross Rs 1bn in FY23 from Rs 560mn currently



- Sugar Free franchise and Complan constitute 93% of overall business
- Top 5 markets account for ~80% of the business
- 3P manufacturing in GCC and New Zealand
- International business contribution targeted to rise to 8-10% in a few years from 3% current

Source: Company, BOBCAPS Research

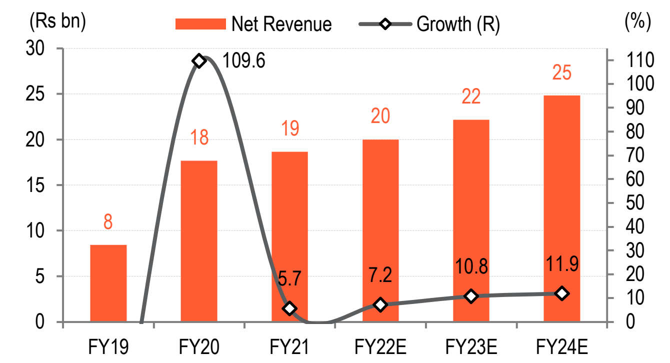
Financial analysis

Expect 10% revenue CAGR over FY21-FY24

We expect ZYWL's revenue to clock a brisk 10% CAGR over FY21-FY24 on the back of strong volume growth across categories. Glucon-D, Everyuth, Nycil and Nutralite are all forecast to grow in double digits led by robust market leadership and variant launches. We estimate that Sugar Free will grow at 9-10% supported by a wider distribution network, new launches (Sugar Green and Sugar Lite) and rising health awareness in urban areas.

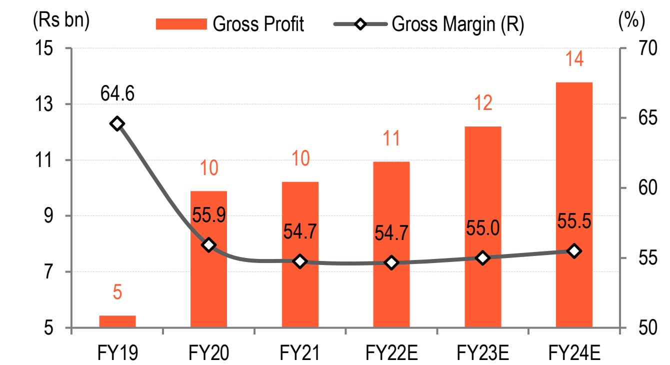
With the introduction of Complan Nutrigro, the company is exploring white spaces in the health drinks market which we believe would bolster growth beyond the mid-single-digit levels seen over the years. This would be further supported by product activations in new regions, high media spends and leveraging of ZYWL's pharmacy chain network.

Fig 46 – Revenue growth



Source: Company, BOBCAPS Research

Fig 47 – Gross profit and margin



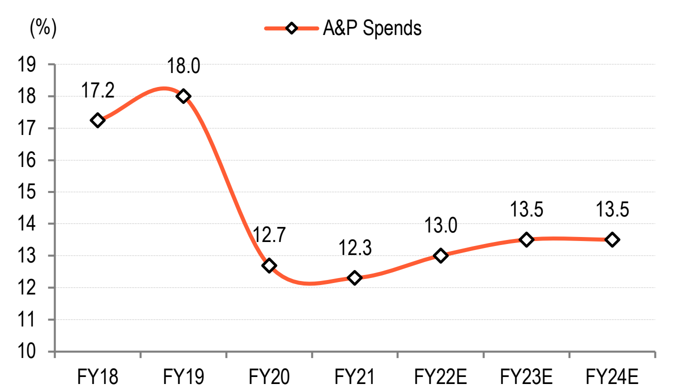
Source: Company, BOBCAPS Research

At the time of its acquisition, Heinz India's revenue was 2x of ZYWL, which led to a spike in the FY19 and FY20 topline upon consolidation of the two entities. Gross margin contracted by 1,320bps over FY18-FY20 due to relatively low margins in the acquired brands, but EBITDA margin contracted just 585bps on the back of lower ad spends in the Heinz portfolio and initial synergy benefits. ZYWL's blended operating margin stood at 18.4% in FY21 from 21-23% historically and gross margin settled at ~55% compared to 69% in FY18. In FY20, the company registered a lower operating margin of 18.2% because of one-time costs related to acquisition and an increase in commodity prices.

ZYWL's brand recall and market share (leader in 5 of 6 categories), alongside increasing consumer awareness and health aspirations bode well for new launches and extensions. We believe this bodes well for new launches and extensions.The company's advertising spends are one of the highest amongst peers and we believe A&P will remain elevated as it markets new variants and brings in credible brand ambassadors (such as chef Sanjeev Kapoor for Sugar Free). However, as economies of scale kick in for the combined entity together with manufacturing efficiencies, distributor & warehouse rationalisation and better bargaining power, we expect EBITDA margin to expand 220bps to 20.7% over FY21-FY24.

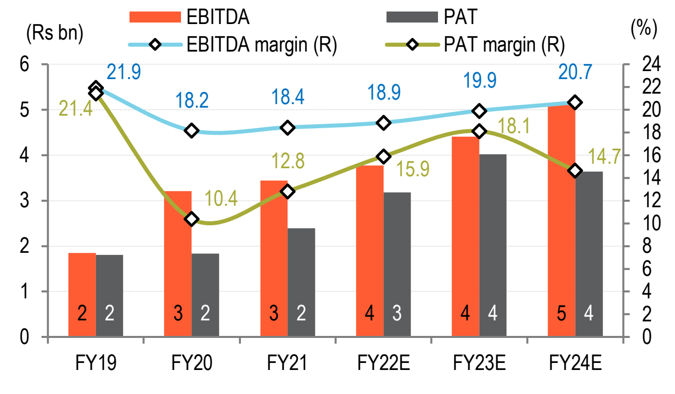
In addition, tax rates for the company would be nil till FY23 on account of excise benefits for two of its plants in Sikkim and depreciation of intangibles worth Rs 5.4bn on account of acquired brands. We expect a 25.2% tax rate in FY24 and an 11% CAGR in net profit over FY21-FY24.

Fig 48 – A&P spends to remain high



Source: Company, BOBCAPS Research

Fig 49 – EBITDA, PAT and Margins

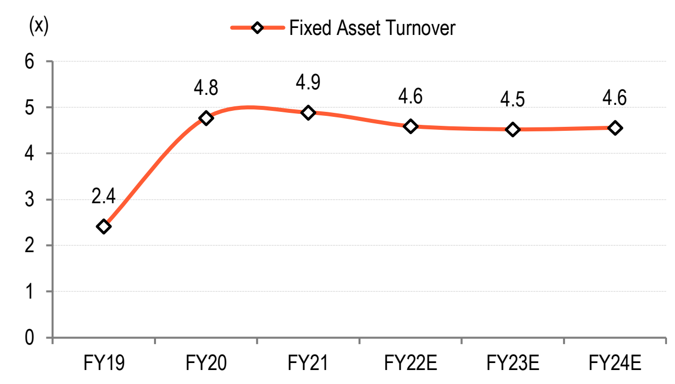


Source: Company, BOBCAPS Research

Optically low return ratios

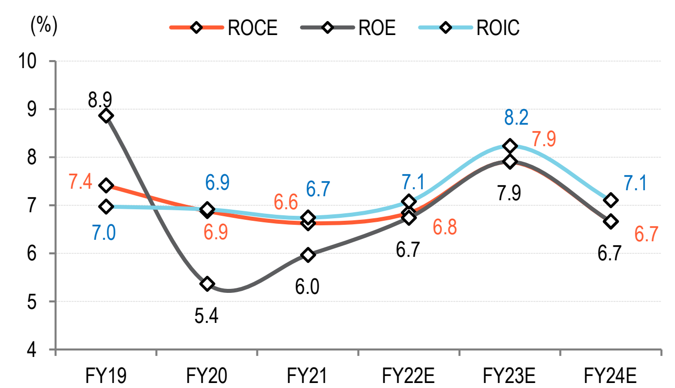
Post-acquisition, return ratios plunged due to the acquired goodwill of Rs 39.2bn and incremental debt of Rs 15bn plus raised equity of Rs 25.8bn. In FY18, ROCE/ROE stood at 19.5%/21.5% which nosedived to 6.9%/5.4% in FY20. However, excluding goodwill, ROCE was at ~40% for FY20. We model for return ratios of 7-8% during FY22-FY24 but do not see this as a deterrent to value creation for shareholders.

Fig 50 – Fixed asset turnover ratio



Source: Company, BOBCAPS Research

Fig 51 – Single-digit return ratios not to deter valuations



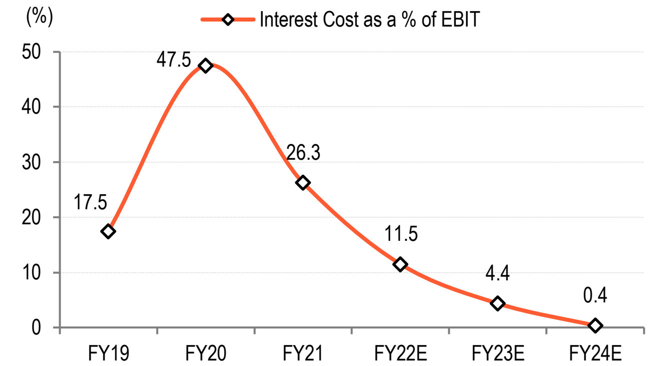
Source: Company, BOBCAPS Research

Targeting debt repayment by FY23

The company took debt of Rs 15bn to fund its Heinz acquisition, causing debt to shoot up to Rs 16bn in FY19 from Rs 363mn (pre-acquisition) in FY18. It also raised equity of Rs 25.8bn, fueling a near-5x jump in net worth from FY18 (Rs 6.9bn pre-acquisition) to FY19. The increased debt propelled interest cost from Rs 17mn in FY18 to ~Rs 1.4bn in FY20.

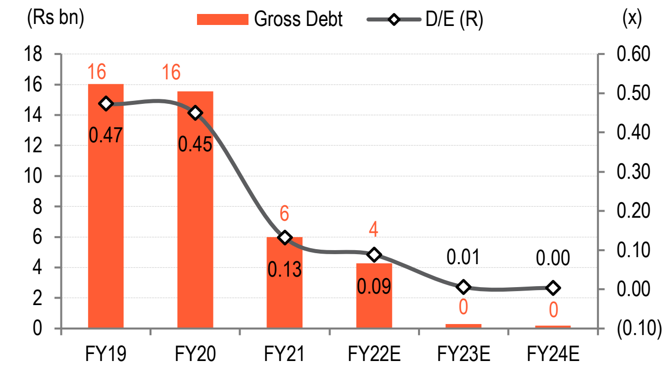
During Q3FY21, ZYWL redeemed the NCD via another QIP of Rs 6.5bn and by refinancing the low-cost debt of Rs 5.65bn at 5.01%. Thus, in the last two years, debt levels were brought under control and stood at Rs 6bn in FY21. This led to a decline in D/E ratio from 0.47x in FY19 to a comfortable 0.13x in FY21. Management has indicated that it is looking to repay debt in FY23 which we expect will result in negligible interest cost and a net debt-free balance sheet in FY24.

Fig 52 – Increased debt over FY19-FY21 to fund acquisition raised interest cost



Source: Company, BOBCAPS Research

Fig 53 – Gross debt and D/E ratio to come down



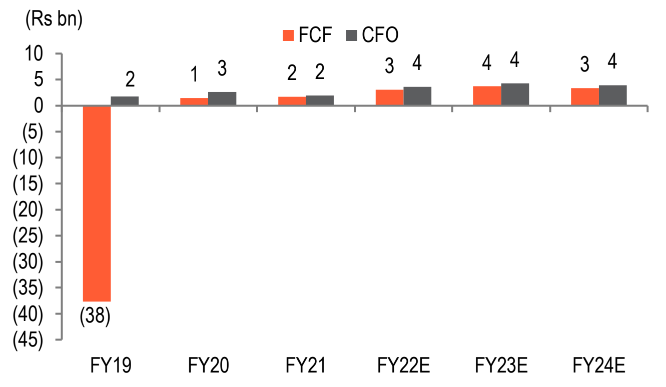
Source: Company, BOBCAPS Research

Operating cash flow to remain strong

Cash generated from operations increased from Rs 1.5bn in FY18 to ~Rs 2bn in FY19 after the acquisition. We expect cumulative operating cash flows of ~Rs 12bn over FY22-FY24 on the back of increased profitability. Working capital is likely to remain stable even as the company continues to expand distribution.

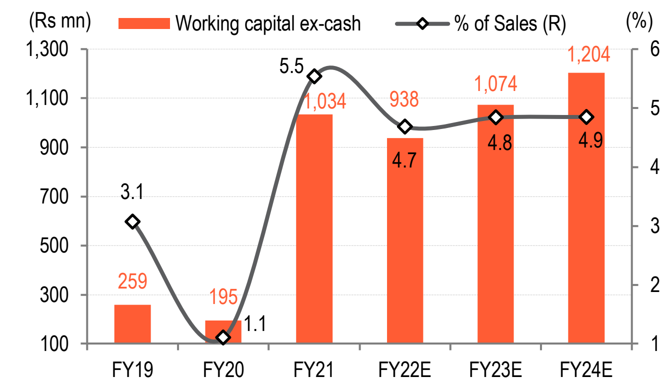
We estimate cumulative free cash flow generation of ~Rs 10bn by FY24 driven by a better operating margin and higher asset turns. In comparison to revenue growth of 10% and EBIT growth of 14.3%, capital employed is projected to grow by 3.1% over FY21-FY24.

Fig 54 – CFO and FCF to improve



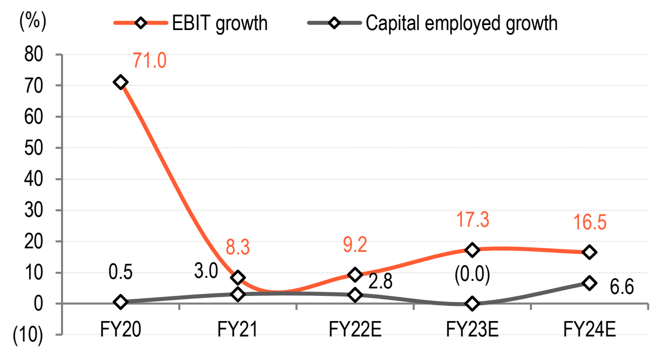
Source: Company, BOBCAPS Research

Fig 55 – Working Capital ex-cash as a % of Sales



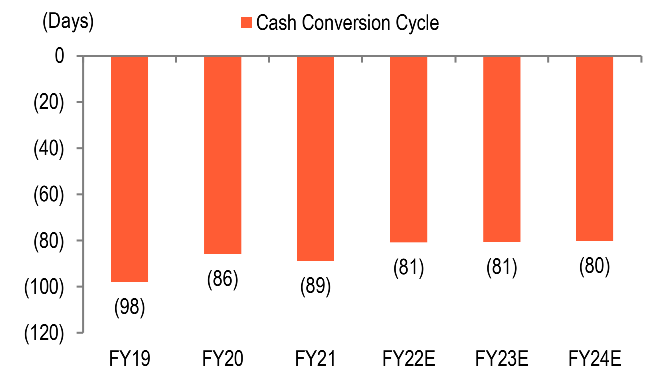
Source: Company, BOBCAPS Research

Fig 56 – Expect higher EBIT growth vs. capital employed



Source: Company, BOBCAPS Research

Fig 57 – Cash conversion cycle to improve



Source: Company, BOBCAPS Research

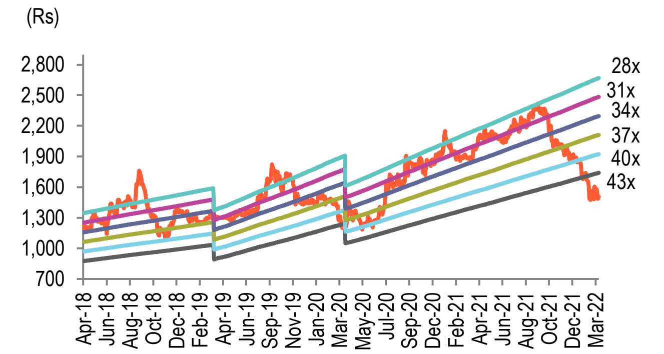
Valuation methodology

ZYWL is a unique play on India's emerging health & wellness category and enjoys market leadership in various niche segments with limited competition from large FMCG companies. Following the acquisition of Heinz India in early 2019, the company's product portfolio has widened and its addressable market has grown multifold.

We expect a revenue/EBITDA/PAT CAGR of 10%/14.2%/11% over FY21-FY24 to Rs 25bn/Rs 5.1bn/Rs 3.7bn on the back of new launches, increasing distribution strength, a broader presence through existing brands, its ability to cater to white spaces, and a strong gross margin which gives it the leeway to spend more on brand building amid structural growth in the health & wellness industry. We are also positive on ZYWL's debt reduction measures, faster FCF generation, and superior execution.

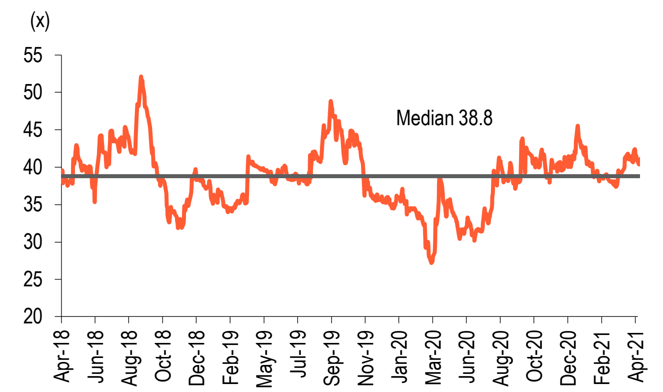
Given the robust growth outlook, we believe the stock can command a higher multiple than peers and have valued it at 38x FY24E EPS for a TP of Rs 2,185, which carries 45% upside. We initiate coverage with a BUY rating.

Fig 58 – One-year forward P/E band



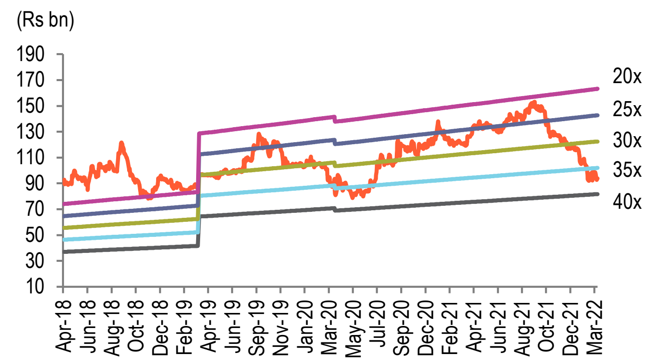
Source: Bloomberg, BOBCAPS Research

Fig 59 – P/E median band



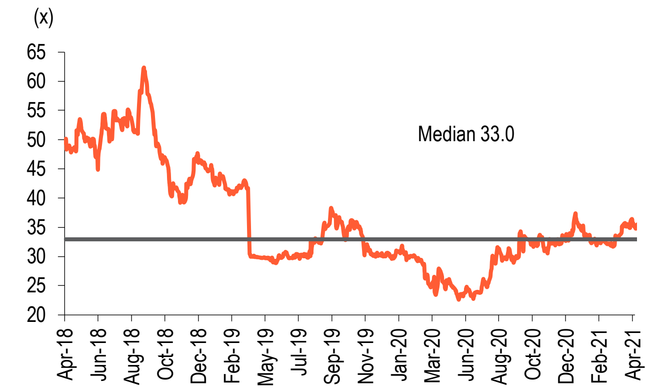
Source: Bloomberg, BOBCAPS Research

Fig 60 – One-year forward EV/EBITDA band



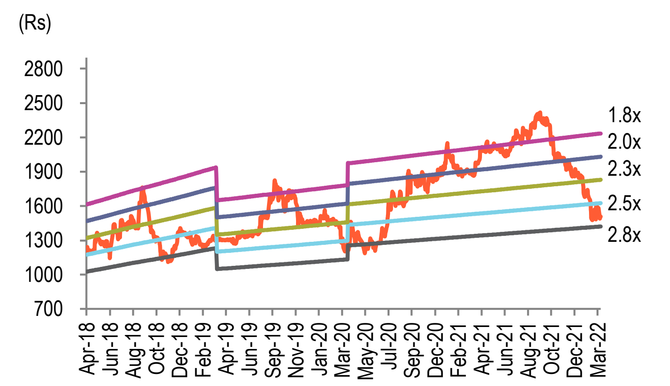
Source: Bloomberg, BOBCAPS Research

Fig 61 – EV/EBITDA median band



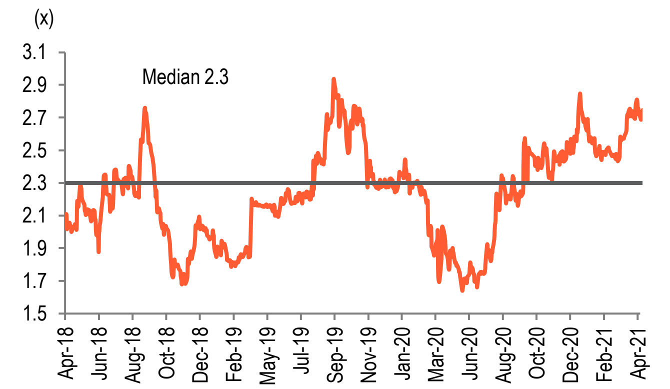
Source: Bloomberg, BOBCAPS Research

Fig 62 – One-year forward P/BV band



Source: Bloomberg, BOBCAPS Research

Fig 63 – P/BV median band



Source: Company, BOBCAPS Research

Fig 64 – Peer comparison

Company	Price (Rs)	M Cap (Rs bn)	Promoter holding (%)	Revenue growth (%)		EBITDA growth (%)		P/E (x)	
				FY20	FY21	FY20	FY21	FY20	FY21
ZYWL	1,508	95.9	64.8	109.6	5.7	18.2	18.4	45.3	36.1
Abbott	17,020	361.7	74.9	11.3	5.3	18.5	21.3	55.4	46.1
Emami	488	217.1	53.9	(1.5)	8.5	26.0	36.7	25.4	47.7
Marico	507	655.6	59.5	(0.3)	10.0	20.0	19.7	34.7	45.3
Bajaj Consumer	161	2.4	38.0	(7.2)	8.2	24.0	26.2	10.6	17.2

Source: Company, BOBCAPS Research | Price as on 14 Mar 2022

Fig 65 – Peer comparison

Company	EV/EBITDA (x)		EV/Sales (x)	M Cap/Sales (x)	ROCE Post Tax (%)		P/BV (x)	
	FY20	FY21	FY21	FY21	FY20	FY21	FY20	FY21
ZYWL	31.3	28.9	5.3	5.1	6.9	6.6	2.1	2.0
Abbott	35.2	29.4	7.3	7.8	27.1	26.5	13.7	12.5
Emami	10.4	22.5	6.6	6.7	15.6	24.3	4.2	12.3
Marico	22.3	31.2	6.9	6.9	42.6	44.9	11.8	16.5
Bajaj Consumer	8.4	13.8	2.7	2.7	39.3	37.9	3.0	5.1

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- failure to realise expected merger benefits,
- failure of new launches,
- aggressive competition from start-ups,
- inability to scale up acquired brands which is typically difficult for FMCG incumbents,
- raw material price increases, and
- economic slowdown/pandemic risk.

Company background

Incorporated in 1988 with the Sugar Free brand, ZYWL has expanded its health and wellness portfolio to seven brands (including four acquired via the inorganic route) backed by robust manufacturing and distribution capabilities. The company is a subsidiary of pharmaceutical major Cadila Healthcare (63.55% stake) and operates through five manufacturing facilities: two in Sikkim and one each in Ahmedabad (Gujarat), Aligarh (Uttar Pradesh) and Sitarganj (Uttarakhand).

ZYWL's brands comprise Sugar Free (sugar substitutes), Nutralite (table and margarine) and Everyuth (skin care). Its acquisition of Heinz India's consumer wellness business in Jan'19 helped expand its product portfolio, adding the popular brands Complan (health food drink), Nycil (prickly heat power), Glucon-D (instant energy glucose powder) and Sampriti Ghee.

The company is a market leader in several of its categories, including Sugar Free, Everyuth scrubs, Everyuth peel-offs, Glucon-D and Nycil where it commands over 96%, 39.2%, 76.4%, 58.1% and 34% market share respectively as on MAT Dec'21.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	**17,668**	**18,667**	**20,018**	**22,171**	**24,815**
EBITDA	3,211	3,444	3,773	4,412	5,124
Depreciation	(264)	(252)	(288)	(324)	(360)
EBIT	2,947	3,192	3,486	4,089	4,765
Net interest inc./(exp.)	(1,399)	(838)	(401)	(179)	(19)
Other inc./(exp.)	107	89	99	109	119
Exceptional items	44	132	0	0	0
EBT	1,717	2,594	3,203	4,039	4,886
Income taxes	205	65	0	0	(1,226)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**1,943**	**2,677**	**3,203**	**4,039**	**3,660**
Adjustments	0	0	0	0	0
Adjusted net profit	**1,943**	**2,677**	**3,203**	**4,039**	**3,660**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	5,045	4,386	4,693	5,130	5,688
Other current liabilities	429	297	320	355	397
Provisions	259	312	334	370	414
Debt funds	15,558	5,991	4,291	291	191
Other liabilities	0	0	0	0	0
Equity capital	577	636	636	636	636
Reserves & surplus	34,030	45,042	48,195	52,176	55,776
Shareholders' fund	34,607	45,678	48,831	52,812	56,413
Total liab. and equities	**55,897**	**56,664**	**58,469**	**58,958**	**63,103**
Cash and cash eq.	824	2,527	3,716	3,174	6,151
Accounts receivables	1,182	943	1,001	1,109	1,241
Inventories	2,923	3,647	3,783	4,157	4,601
Other current assets	1,396	1,166	1,223	1,355	1,516
Investments	39,200	39,200	39,200	39,200	39,200
Net fixed assets	2,047	1,996	2,245	2,466	2,655
CWIP	35	37	44	49	55
Intangible assets	5,488	5,478	5,478	5,478	5,478
Deferred tax assets, net	0	0	0	0	0
Other assets	1,697	1,670	1,779	1,971	2,206
Total assets	**54,793**	**56,664**	**58,469**	**58,958**	**63,103**

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	**1,606**	**1,920**	**3,591**	**4,257**	**3,926**
Capital expenditures	(169)	(203)	(544)	(549)	(555)
Change in investments	(643)	1,104	0	0	0
Other investing cash flows	49	37	(109)	(191)	(235)
Cash flow from investing	**843**	**2,858**	**2,938**	**3,516**	**3,137**
Equities issued/Others	(1,171)	8,422	(19)	(20)	(21)
Debt raised/repaid	(484)	(9,567)	(1,700)	(4,000)	(100)
Interest expenses	0	0	0	0	0
Dividends paid	(28)	(28)	(31)	(38)	(38)
Other financing cash flows	22	18	0	0	0
Cash flow from financing	**(819)**	**1,703**	**1,188**	**(542)**	**2,977**
Chg in cash & cash eq.	**1,643**	**824**	**2,527**	**3,716**	**3,174**
Closing cash & cash eq.	**824**	**2,527**	**3,716**	**3,174**	**6,151**

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	31.9	37.6	50.0	63.2	57.2
Adjusted EPS	31.9	37.6	50.0	63.2	57.2
Dividend per share	0.4	0.4	0.4	0.5	0.5
Book value per share	600.2	717.9	767.4	830.0	886.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	5.7	5.9	5.2	4.4	3.8
EV/EBITDA	31.5	32.1	27.8	22.2	18.5
Adjusted P/E	47.3	40.1	30.1	23.9	26.4
P/BV	2.5	2.1	2.0	1.8	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	111.9	103.2	100.0	100.0	74.9
Interest burden (PBT/EBIT)	56.2	79.1	89.3	96.2	100.0
EBIT margin (EBIT/Revenue)	17.3	17.6	17.9	18.9	19.7
Asset turnover (Rev./Avg TA)	189.3	188.3	179.3	182.3	174.0
Leverage (Avg TA/Avg Equity)	0.3	0.2	0.2	0.2	0.3
Adjusted ROAE	5.6	6.7	6.8	7.9	6.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	109.6	5.7	7.2	10.8	11.9
EBITDA	73.7	7.3	9.6	16.9	16.1
Adjusted EPS	3.9	25.4	20.5	26.1	(9.4)
Profitability & Return ratios (%)					
EBITDA margin	18.2	18.4	18.9	19.9	20.7
EBIT margin	16.7	17.1	17.4	18.4	19.2
Adjusted profit margin	11.0	14.3	16.0	18.2	14.7
Adjusted ROAE	3.7	4.6	6.0	7.6	6.4
ROCE	6.9	6.6	6.8	7.9	6.7
Working capital days (days)					
Receivables	24	18	18	18	18
Inventory	135	155	150	150	150
Payables	126	104	104	104	104
Ratios (x)					
Gross asset turnover	0.4	0.4	0.4	0.4	0.4
Current ratio	1.2	1.7	1.9	1.7	2.1
Net interest coverage ratio	2.2	3.9	8.9	23.5	259.8
Adjusted debt/equity	0.4	0.1	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

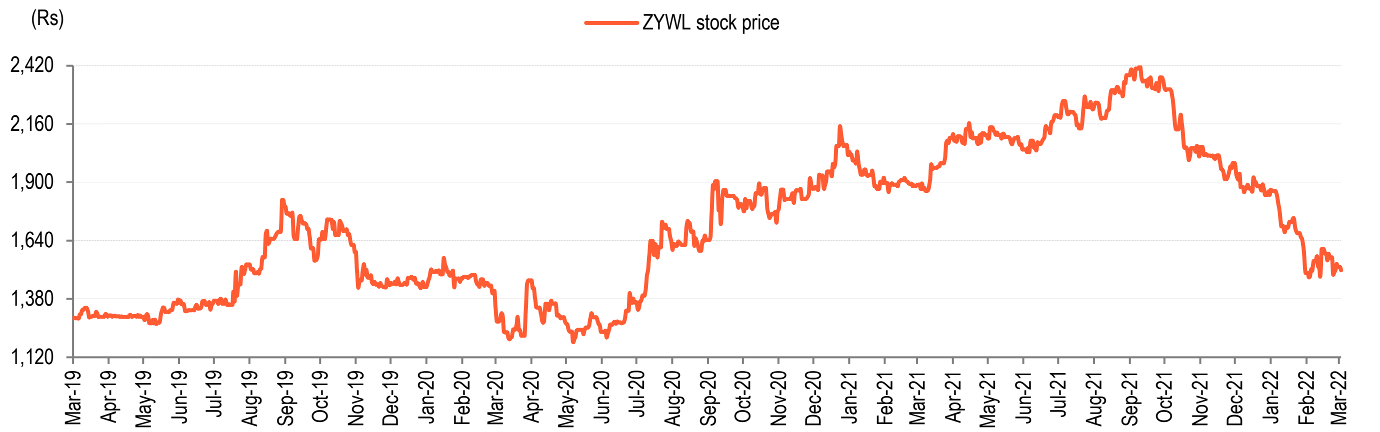
HOLD – Expected return from -6% to +15%

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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