

HOLD
 TP: Rs 2,596 | ▲ 15%

ZYDUS WELLNESS

Consumer Staples

03 August 2024

1QFY25 result review: Risk from La Nina

- Sales (+20%) were 7% higher on heatwave but EBITDA was in line with Bloomberg consensus. We forecast +13% sales growth in FY25
- Zydus is guiding for high teens EBITDA margin by FY26. We expect this to be doable on mix improvement and rural recovery
- We assume coverage with HOLD and TP of Rs 2,596. Rural recovery is a positive but there is risk from La Niña-driven cooler and wetter weather

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Sales beat and in-line EBITDA: Zydus reported 35% underlying EPS growth on 20% sales and 190bps EBITDA margin expansion. Compared to consensus, sales were 7% higher but EBITDA was in line with margins coming in 130bps lower.

Sales trends strong but driven by one-off heatwave: Sales increased 20% driven by summer-centric portfolio in both Food (+15%) and Personal Care (+42%). Glucose category grew by 21% while Zydus’s share declined only 11bps to 59.7%. In Personal Care, Nycil talcum also performed strongly.

Two-year outlook: Zydus expects double-digit topline growth and high teens EBITDA margin by FY26. We think this is plausible excluding the impact from heatwave which boosted sales this year but will have a tough comp impact on FY26. Over FY25/FY26, we forecast average sales +10% and EBITDA margin of 15.6%.

Our view: We have a HOLD rating on Zydus Wellness. We view 1QFY25 as a one-off given the benefit from the heatwave. While topline and margin targets over the next couple of years appear plausible, we see a risk in the portfolio given exposure to categories (for instance glucose, talcum) that are highly sensitive to seasonal changes. Unusual heat, unseasonal rains, etc, can lead to large fluctuations in reported sales and earnings. Rural recovery will be a positive for Zydus given its ~30% rural sales exposure, however, there is a risk from the impending La Niña, which will bring cooler and wetter weather, in contrast to the heatwave in 1QFY25. We value Zydus at 37x 12M to Jun’26 EPS using P/E relative to the NIFTY 50 index. We raise TP to Rs 2,596 from Rs 1,531.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ZYWL IN/Rs 2,261
Market cap	US\$ 1.7bn
Free float	21%
3M ADV	US\$ 1.5mn
52wk high/low	Rs 2,484/Rs 1,425
Promoter/FPI/DII	69%/3%/28%

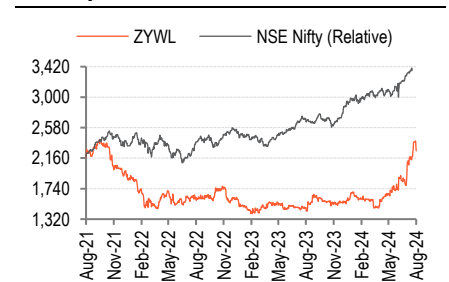
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	23,278	26,205	28,184
EBITDA (Rs mn)	3,082	4,048	4,431
Adj. net profit (Rs mn)	2,852	3,966	4,162
Adj. EPS (Rs)	44.8	62.3	65.4
Consensus EPS (Rs)	44.8	62.1	67.5
Adj. ROAE (%)	5.3	7.0	7.0
Adj. P/E (x)	50.4	36.3	34.6
EV/EBITDA (x)	46.7	35.5	32.5
Adj. EPS growth (%)	(8.2)	39.1	4.9

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

Stock performance



Source: NSE

Zydus Wellness 1QFY25 result summary (Rs mn)				Reported vs (%)	
	Q1FY24	Q1FY25	YoY (%)		Cons.
Sales	7,021	8,410	20		7
EBITDA	1,165	1,552	33		0
EBITDA Margin (%)	16.6	18.5	186bps		(129bps)
Adj. EPS (Rs)	19.6	26.5	35		n/m

Source: Company, Bloomberg, BOBCAPS Research



Earnings summary

For FY25, we forecast lower sales growth rate of 13%, given 1QFY25 had the one-off benefit from heatwave. We expect EBITDA margin to continue to expand through FY25 given cost relief and operating leverage.

Fig 1 – Zydus Wellness financial forecasts

(Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Sales	20,091	22,549	23,278	26,205	28,184
...YoY (%)	-	12	3	13	8
EBITDA	3,448	3,373	3,082	4,124	4,520
...YoY (%)	-	(2)	(9)	34	10
EBITDA Margin (%)	17.2	15.0	13.2	15.7	16.0
...YoY (%)	-	(221bps)	(172bps)	250bps	30bps

Source: Company, BOBCAPS Research

Valuation

The stock is currently trading at 34x FY25E EPS. Zydus has historically traded at 1.6x vs the NSE NIFTY 50 1-year forward EPS. We value Zydus at 37x 12M to Jun'26 EPS – a 10% premium to its historical average vs NIFTY 50. We maintain HOLD and increase TP to Rs 2,596 from Rs 1,531.

Key risks

Key downside risks to our estimates are:

- market share loss in health food drinks,
- delayed recovery in rural markets, and
- La Niña resulting in delayed winters, impacting portfolio performance in 4Q.

Key upside risks to our estimates are:

- market share gains in health food drinks, and
- strong recovery in rural markets.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	20,091	22,549	23,278	26,205	28,184
EBITDA	3,448	3,373	3,082	4,048	4,431
Depreciation	236	250	238	204	302
EBIT	3,212	3,122	2,844	3,844	4,130
Net interest inc./(exp.)	255	161	240	151	39
Other inc./(exp.)	104	49	139	103	71
Exceptional items	0	101	1	1	1
EBT	3,060	2,910	2,742	3,795	4,161
Income taxes (29)	(195)	(109)	(170)	(170)	0
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,089	3,105	2,851	3,965	4,161
Adjustments	0	101	1	1	1
Adjusted net profit	3,089	3,205	2,852	3,966	4,162

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	3,643	3,133	3,629	3,848	4,145
Other current liabilities	345	386	361	406	437
Provisions	347	410	446	482	507
Debt funds	3,815	2,925	3,240	700	300
Other liabilities	333	250	233	254	268
Equity capital	636	636	636	636	636
Reserves & surplus	47,804	50,590	52,939	55,913	59,033
Shareholders' fund	48,440	51,227	53,575	56,549	59,669
Total liab. and equities	56,922	58,331	61,485	62,239	65,326
Cash and cash eq.	1,154	370	800	646	2,576
Accounts receivables	1,423	2,078	2,833	3,189	3,430
Inventories	3,616	4,575	4,676	4,958	5,340
Other current assets	1,673	1,356	3,065	3,248	3,371
Investments	270	700	776	776	776
Net fixed assets	2,445	2,704	2,467	2,687	2,956
CWIP	119	130	97	97	97
Intangible assets	44,655	44,620	44,608	44,608	44,608
Deferred tax assets, net	1,298	1,493	1,563	1,760	1,892
Other assets	268	300	242	268	285
Total assets	56,922	58,331	61,485	62,237	65,334

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	2,410	930	2,491	2,403	4,047
Capital expenditures	(754)	(450)	(285)	(522)	(558)
Change in investments	(205)	(413)	(40)	0	0
Other investing cash flows	100	14	131	(119)	(79)
Cash flow from investing	(860)	(848)	(194)	(641)	(637)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,683)	(890)	315	(2,540)	(400)
Interest expenses	(325)	(159)	(235)	(151)	(39)
Dividends paid	(319)	(319)	(319)	(991)	(1,040)
Other financing cash flows	(12)	(17)	(18)	0	0
Cash flow from financing	(2,338)	(1,385)	(257)	(3,682)	(1,479)
Chg in cash & cash eq.	(829)	(1,316)	2,014	(1,750)	1,931
Closing cash & cash eq.	1,698	382	2,396	646	2,576

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	48.6	48.8	44.8	62.3	65.4
Adjusted EPS	48.6	50.4	44.8	62.3	65.4
Dividend per share	74.5	5.0	5.0	15.6	16.4
Book value per share	761.6	805.4	842.4	889.1	938.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	7.2	6.4	6.2	5.5	5.1
EV/EBITDA	41.7	42.6	46.7	35.5	32.5
Adjusted P/E	46.6	44.9	50.4	36.3	34.6
P/BV	3.0	2.8	2.7	2.5	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	100.9	106.7	104.0	104.5	100.0
Interest burden (PBT/EBIT)	96.2	99.4	100.2	103.2	100.8
EBIT margin (EBIT/Revenue)	16.0	13.8	12.2	14.7	14.7
Asset turnover (Rev./Avg TA)	35.3	38.7	37.9	42.1	43.1
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	6.4	6.1	5.3	7.0	7.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	7.6	12.2	3.2	12.6	7.6
EBITDA	0.1	(2.2)	(8.6)	31.3	9.5
Adjusted EPS	160.1	0.5	(8.2)	39.1	4.9
Profitability & Return ratios (%)					
EBITDA margin	17.2	15.0	13.2	15.4	15.7
EBIT margin	16.0	13.8	12.2	14.7	14.7
Adjusted profit margin	15.4	14.2	12.3	15.1	14.8
Adjusted ROAE	6.4	6.1	5.3	7.0	7.0
ROCE	6.1	5.8	5.0	6.7	6.9
Working capital days (days)					
Receivables	26	34	44	44	44
Inventory	135	146	150	150	150
Payables	136	100	116	116	116
Ratios (x)					
Gross asset turnover	0.3	0.4	0.4	0.4	0.4
Current ratio	1.1	1.3	1.6	2.3	2.8
Net interest coverage ratio	12.6	19.4	11.9	25.4	106.1
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%

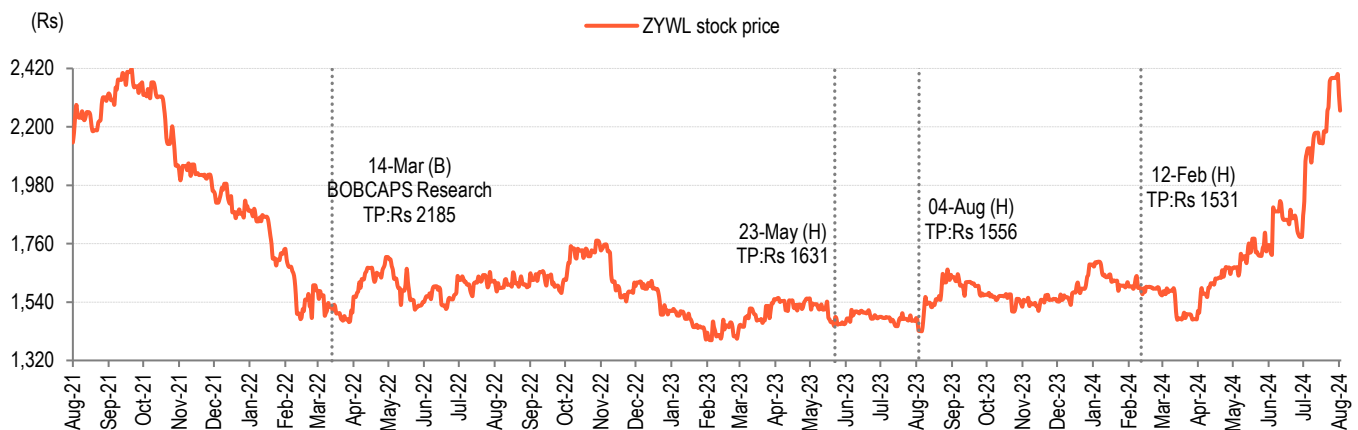
HOLD – Expected return from -6% to +15%

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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