

HOLD
 TP: Rs 1,941 | ▲ 1%

ZYDUS WELLNESS

Consumer Staples

11 November 2024

Broad-based sales growth is a positive or a concern?

- Underlying EBITDA +62% YoY. Sales was +12% with EBITDA margin expanding 20bps to 4.0%
- Strong sales growth at least partly driven by Quick Commerce with Traditional also growing ahead of the market
- We see risk of excess inventory in the Traditional channel. We value Zydus at 33x 12M to Sep'26 EPS with a Rs 1,941 TP. HOLD

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EBITDA +62% YoY: On a YoY basis, sales was +12% with underlying EBITDA margin expanding 20bps to 4.0%. A&P as a proportion of sales was up to support new launches in health food drinks, cheese and cookies. Sales growth was driven by both Food (+10%) and Personal Care (+26%). Household penetration increased for Glucose (+21% MAT) and Prickly Heat Powder (+26% MAT). Zydus continued to lose share but given its current large share, it remained a net beneficiary.

Is above-average, broad-based sales growth a positive or a concern? Sales growth was strong across channels with Modern Trade and Quick Commerce being the main drivers. Traditional trade also performed ahead of the industry. The company noted “well rounded” performance and attributed it to strong execution by its staff. We suspect channel filling given traditional trade should have slowed with the acceleration in Quick Commerce. 2Q is a seasonally small quarter but a strong performance in two consecutive quarters partly driven by Quick Commerce should have ideally resulted in some drag on sales due to channel shift.

Naturelle to be EPS accretive in Year 2: Zydus acquired Naturelle for Rs 3.90bn and the transaction will be completed in Jan'25. FY24 turnover was Rs 1.19bn with sales increasing 20+% YoY. Zydus is looking to scale up the business keeping a stable portfolio. Year 1 will be focused on distribution expansion with the business becoming EPS accretive in Year 2.

Our view: Rural recovery is a positive for Zydus given its ~30% rural sales exposure. However, there is risk on inventory position and clarity will likely emerge in 4Q as 3Q is also a seasonally weak quarter. While Zydus has retained its double-digit topline and high teens margin targets over the next couple of years, there is risk given exposure to categories (glucose, talcum) that are highly sensitive to weather changes. The impending La Niña will bring cooler and wetter weather that can adversely impact 4Q performance. We value Zydus at 33x 12M to Sep'26 EPS using P/E relative to the NIFTY 50 index. We retain HOLD and reduce TP to Rs 1,941 from Rs 2,596.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,930
Market cap	US\$ 1.5bn
Free float	21%
3M ADV	US\$ 1.0mn
52wk high/low	Rs 2,484/Rs 1,440
Promoter/FPI/DII	69%/3%/28%

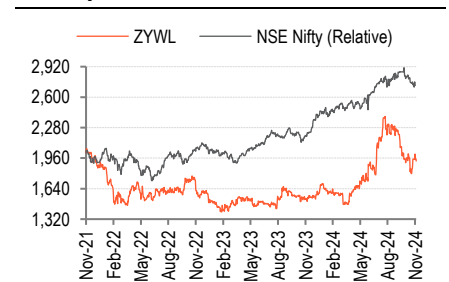
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,278	26,725	29,558
EBITDA (Rs mn)	3,082	4,051	4,531
Adj. net profit (Rs mn)	2,852	3,984	4,221
Adj. EPS (Rs)	44.8	62.6	66.3
Consensus EPS (Rs)	44.8	62.1	73.3
Adj. ROAE (%)	5.3	7.0	7.1
Adj. P/E (x)	43.1	30.8	29.1
EV/EBITDA (x)	39.8	30.3	27.1
Adj. EPS growth (%)	(8.2)	39.7	5.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



2QFY25 result

Fig 1 – Zydus Wellness 2QFY25 result summary

(Rs mn)	Q2FY24	Q2FY25	YoY (%)	Reported vs (%)	
				BOBCAPS	Consensus
Sales	4,399	4,929	12	4	0
EBITDA	168	196	17	(28)	(41)
EBITDA Margin (%)	3.8	4.0	16bps	(178bps)	(281bps)

Source: Company, Bloomberg, BOBCAPS Research

Earnings revisions

We keep our core forecasts relatively unchanged. We incorporate Naturelle M&A starting Jan'25. We expect the business to be sales accretive in FY25. However, scale benefits to reflect in earnings more prominently starting FY27 with sales +5% and EBITDA also increasing 4%.

Fig 2 – Zydus Wellness earnings revisions

(Rs mn)	Actual FY24	New			Old			Change (%)		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	23,278	26,725	29,558	33,105	26,205	28,184	31,567	2	5	5
EBITDA	3,082	4,051	4,531	5,844	4,048	4,431	5,628	0	2	4
EBITDA Margin (%)	13.2	15.2	15.3	17.7	15.4	15.7	17.8	(29bps)	(39bps)	(18bps)
Adj. PAT	2,852	3,984	4,221	5,568	3,966	4,162	5,358	0	1	4
Adj. EPS (Rs)	44.8	62.6	66.3	87.5	62.33	65.40	84.21	0	1	4

Sources: Company, BOBCAPS Research

Valuation

The stock is currently trading at 32x FY25E EPS. Zydus has historically traded at 1.6x vs the NSE NIFTY 50 1-year forward EPS. We value Zydus at 33x 12M to Sep'26 EPS – an in-line multiple vs the earlier 10% premium to its historical average vs NIFTY 50. The rural recovery theme is intact but there is risk on (1) sales growth momentum due to inventory position and (1) meeting 2-year guidance on a portfolio that is highly sensitive to weather. We maintain HOLD and decrease TP to Rs 1,941 from Rs 2,596.

Key risks

Key downside risks to our estimates are:

- market share loss in health food drinks,
- delayed recovery in rural markets,
- excess inventory in traditional trade leading to destocking by distributors, 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)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	22,549	23,278	26,725	29,558	33,105
EBITDA	3,373	3,082	4,051	4,531	5,844
Depreciation	250	238	198	308	308
EBIT	3,122	2,844	3,853	4,223	5,536
Net interest inc./(exp.)	161	240	122	39	39
Other inc./(exp.)	49	139	111	37	71
Exceptional items	101	1	1	1	1
EBT	2,910	2,742	3,841	4,220	5,567
Income taxes	(195)	(109)	(142)	0	0
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,105	2,851	3,983	4,220	5,567
Adjustments	101	1	1	1	1
Adjusted net profit	3,205	2,852	3,984	4,221	5,568

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,133	3,629	3,932	4,359	4,882
Other current liabilities	386	361	414	458	513
Provisions	410	446	489	524	567
Debt funds	2,925	3,240	700	300	300
Other liabilities	250	233	258	278	302
Equity capital	636	636	636	636	636
Reserves & surplus	50,590	52,939	55,927	59,092	63,267
Shareholders' fund	51,227	53,575	56,563	59,728	63,903
Total liab. and equities	58,331	61,485	62,342	65,635	70,458
Cash and cash eq.	370	800	502	2,226	5,137
Accounts receivables	2,078	2,833	3,253	3,597	4,029
Inventories	4,575	4,676	5,067	5,617	6,291
Other current assets	1,356	3,065	3,280	3,457	3,679
Investments	700	776	776	776	776
Net fixed assets	2,704	2,467	2,692	2,974	3,289
CWIP	130	97	97	97	97
Intangible assets	44,620	44,608	44,608	44,608	44,608
Deferred tax assets, net	1,493	1,563	1,794	1,985	2,223
Other assets	300	242	272	297	328
Total assets	58,331	61,485	62,342	65,635	70,458

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	930	2,491	2,304	3,982	5,196
Capital expenditures	(450)	(285)	(532)	(585)	(655)
Change in investments	(413)	(40)	0	0	0
Other investing cash flows	14	131	(150)	(178)	(198)
Cash flow from investing	(848)	(194)	(682)	(763)	(854)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(890)	315	(2,540)	(400)	0
Interest expenses	(159)	(235)	(122)	(39)	(39)
Dividends paid	(319)	(319)	(996)	(1,055)	(1,392)
Other financing cash flows	(17)	(18)	0	0	0
Cash flow from financing	(1,385)	(257)	(3,658)	(1,494)	(1,431)
Chg in cash & cash eq.	(1,316)	2,014	(1,894)	1,724	2,911
Closing cash & cash eq.	382	2,396	502	2,226	5,137

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	48.8	44.8	62.6	66.3	87.5
Adjusted EPS	50.4	44.8	62.6	66.3	87.5
Dividend per share	5.0	5.0	15.7	16.6	21.9
Book value per share	805.4	842.4	889.3	939.1	1,004.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.4	5.3	4.6	4.2	3.7
EV/EBITDA	36.4	39.8	30.3	27.1	21.0
Adjusted P/E	38.3	43.1	30.8	29.1	22.1
P/BV	2.4	2.3	2.2	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	106.7	104.0	103.7	100.0	100.0
Interest burden (PBT/EBIT)	99.4	100.2	103.4	99.9	100.6
EBIT margin (EBIT/Revenue)	13.8	12.2	14.4	14.3	16.7
Asset turnover (Rev./Avg TA)	38.7	37.9	42.9	45.0	47.0
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	6.1	5.3	7.0	7.1	8.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	12.2	3.2	14.8	10.6	12.0
EBITDA	(2.2)	(8.6)	31.4	11.9	29.0
Adjusted EPS	0.5	(8.2)	39.7	5.9	31.9
Profitability & Return ratios (%)					
EBITDA margin	15.0	13.2	15.2	15.3	17.7
EBIT margin	13.8	12.2	14.4	14.3	16.7
Adjusted profit margin	14.2	12.3	14.9	14.3	16.8
Adjusted ROAE	6.1	5.3	7.0	7.1	8.7
ROCE	5.8	5.0	6.7	7.0	8.6

Working capital days (days)

	FY23A	FY24A	FY25E	FY26E	FY27E
Receivables	34	44	44	44	44
Inventory	146	150	150	150	150
Payables	100	116	116	116	116

Ratios (x)

	FY23A	FY24A	FY25E	FY26E	FY27E
Gross asset turnover	0.4	0.4	0.4	0.4	0.4
Current ratio	1.3	1.6	2.3	2.8	3.1
Net interest coverage ratio	19.4	11.9	31.7	108.5	142.2
Adjusted debt/equity	0.1	0.1	0.0	0.0	0.0

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

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BUY – Expected return >+15%

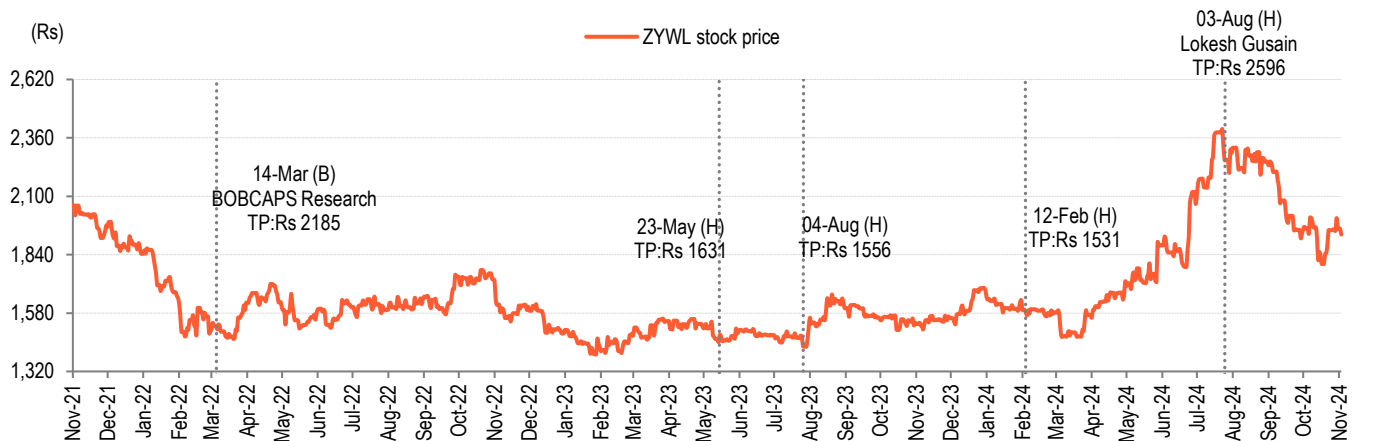
HOLD – Expected return from -6% to +15%

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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