

**HOLD**  
 TP: Rs 1,531 | ▼ 3%

**ZYDUS WELLNESS**

Consumer Staples

12 February 2024

**Seasonally weak quarter**

- Q3 revenue dipped 3% YoY owing to dismal performance in food & nutrition segment
- Gross margin expanded 420bps YoY, but EBITDA margin contracted due to higher expenses
- We roll valuations over to FY26 and maintain HOLD with revised TP of Rs 1,531 (earlier Rs 1,556)

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**Dismal performance amid seasonal weakness:** ZYWL reported a 3% YoY dip in revenue to Rs 4bn in Q3FY24 owing to a 5% decline in the food & nutrition segment. Personal care, on the other hand, grew 16% YoY. The company expects a return to double-digit topline growth in FY25. ZYWL has a distribution reach of 2.9mn outlets which the company aims to take to 3.5mn in three years. It also continues to strengthen sales on new-age platforms, with the revenue contribution from e-commerce rising to 11% from 10% in Q3FY23 and 8% in Q3FY22.

**Gross margin continues to improve on lower input cost:** Gross margin expanded 420bps YoY and 290bps QoQ to 48.1% as key commodity prices continued to moderate sequentially and calibrated price increases were taken across the portfolio. EBITDA margin, however, contracted sharply by 370bps YoY (-70bps QoQ) to 3.1% as A&P spend increased 12%, other expenses grew 17% and employee cost rose 11%, leading to a 55% YoY drop in EBITDA.

**International markets continue to perform despite headwinds:** ZYWL reported strong double-digit growth in international markets during 9MFY24 and is targeting 8-10% revenue from these markets in the next 4-5 years. *Sugar Free* and *Complan* currently constitute ~90% of overseas business and the top five markets constitute ~80% revenue share. The company extended its Sugar Free D’lite and Complan portfolio in international markets during the quarter.

**Maintain HOLD:** ZYWL has been able to maintain leadership in key categories despite macro headwinds, anchored by strong growth in the personal care businesses. However, the food & nutrition segment has had a disappointing quarter, even accounting for seasonal weakness. Gross margin improved during the quarter, though higher employee, A&P spend and other expenses dented operating margin. Considering the weak performance, we retain our HOLD rating on the stock. Our TP moves to Rs 1,531 (earlier Rs 1,556) as we roll valuations over to FY26E and reset to a 21x P/E multiple (earlier 22x) – in line with the stock’s 10Y average multiple.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,582
Market cap	US\$ 1.2bn
Free float	21%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 1,721/Rs 1,392
Promoter/FPI/DII	69%/3%/28%

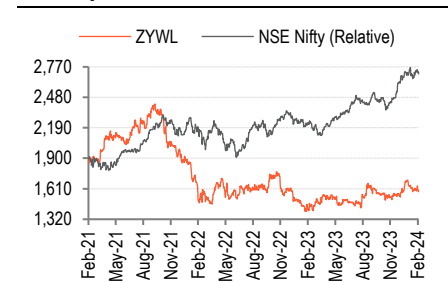
Source: NSE | Price as of 12 Feb 2024

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	22,549	23,509	26,354
EBITDA (Rs mn)	3,373	2,886	4,314
Adj. net profit (Rs mn)	3,205	2,662	4,016
Adj. EPS (Rs)	50.4	41.8	63.1
Consensus EPS (Rs)	50.4	46.0	69.2
Adj. ROAE (%)	6.1	5.0	7.1
Adj. P/E (x)	31.4	37.8	25.1
EV/EBITDA (x)	29.8	34.9	23.3
Adj. EPS growth (%)	0.5	(14.3)	50.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE

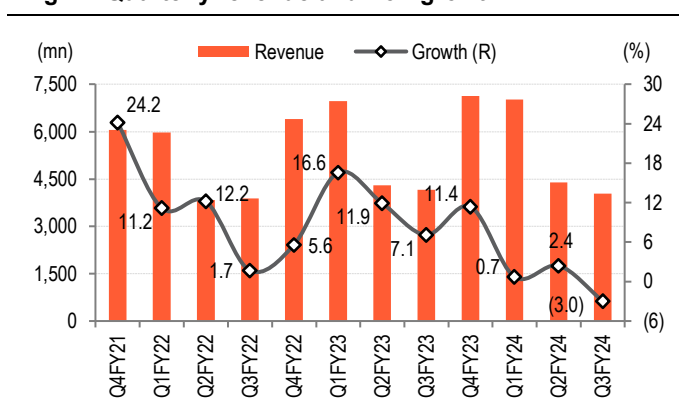


**Fig 1 – Financial performance**

(Rs mn)	Q3FY24	Q2FY24	Q3FY23	QoQ (%)	YoY (%)	9MFY24	9MFY23	YoY (%)
Revenue	4,032	4,399	4,156	(8.3)	(3.0)	15,452	15,419	0.2
EBITDA	127	168	282	(24.4)	(55.0)	1,460	1,927	(24.2)
Adj. PAT	3	59	196	(94.9)	(98.5)	1,308	1,681	(22.2)
Gross Margin (%)	48.1	45.2	43.9	290bps	420bps	49.3	48.4	90bps
EBITDA Margin (%)	3.1	3.8	6.8	(70bps)	(370bps)	9.4	12.5	(310bps)
Adj. PAT Margin (%)	0.1	1.3	4.7	(120bps)	(460bps)	8.5	10.9	(240bps)

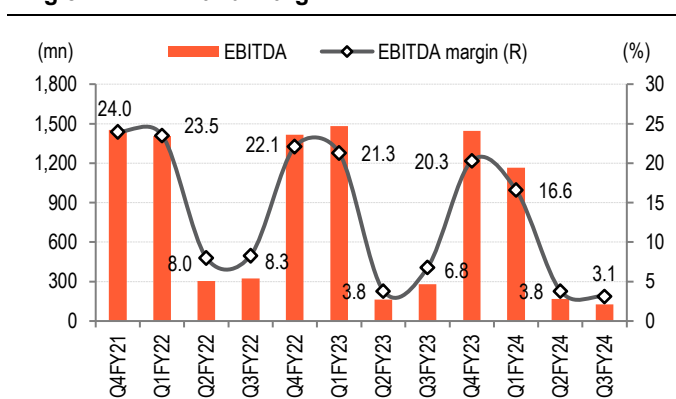
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly revenue and YoY growth**



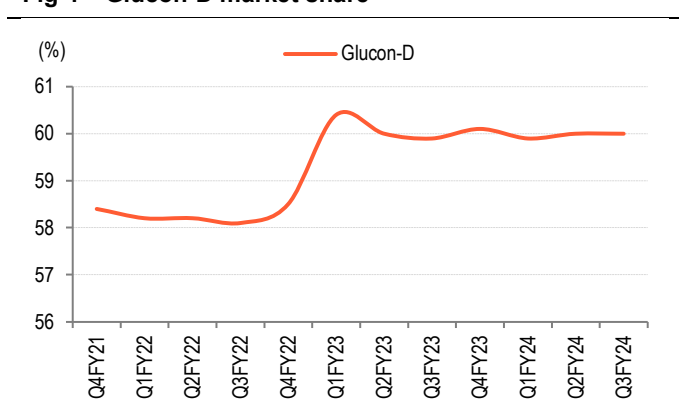
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA and margin**



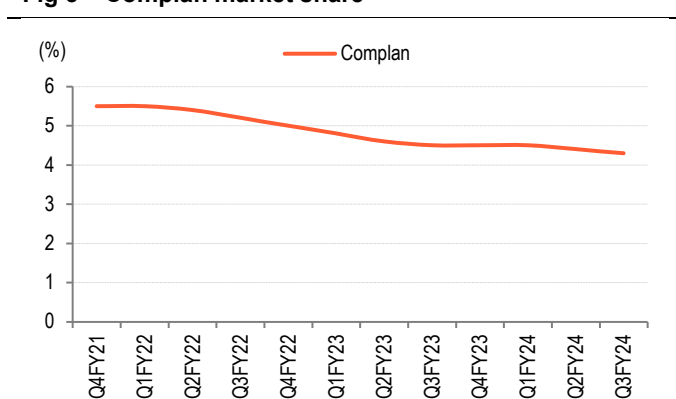
Source: Company, BOBCAPS Research

**Fig 4 – Glucon-D market share**



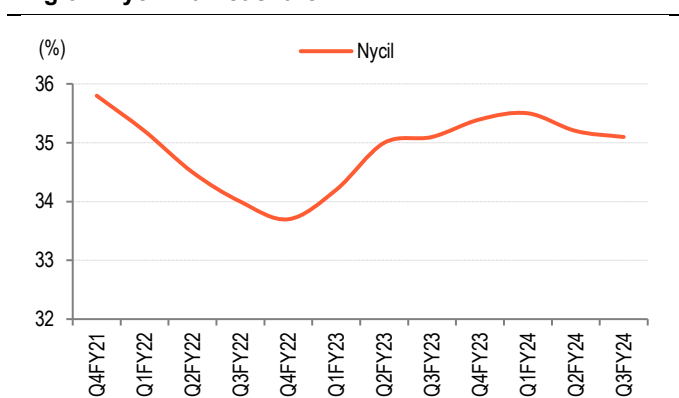
Source: Company, BOBCAPS Research

**Fig 5 – Complan market share**



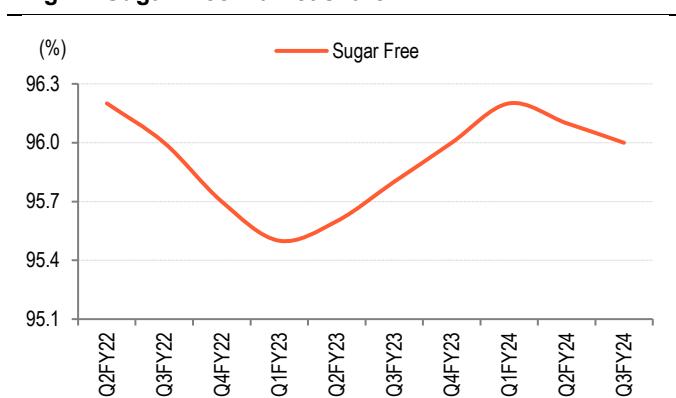
Source: Company, BOBCAPS Research

**Fig 6 – Nycil market share**



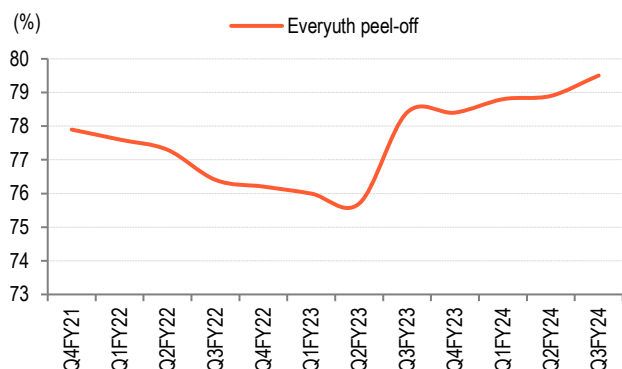
Source: Company, BOBCAPS Research

**Fig 7 – Sugar Free market share**



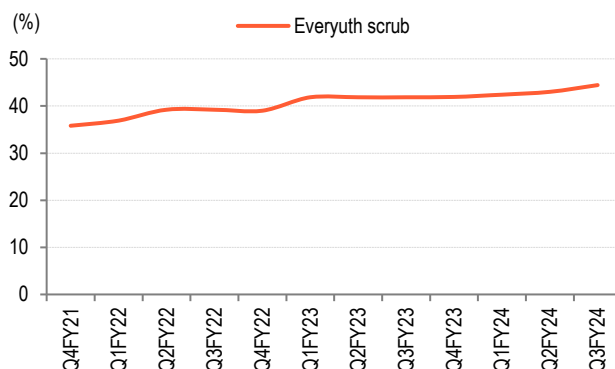
Source: Company, BOBCAPS Research

**Fig 8 – Everyuth peel-off market share**



Source: Company, BOBCAPS Research

**Fig 9 – Everyuth scrub market share**



Source: Company, BOBCAPS Research

### Earnings call highlights

- During Q3FY24, the FMCG sector continued to witness demand pressure on a sequential basis as rural consumption remained muted. Factors including low agricultural yields, a delayed winter and a late festive season hurt demand during the quarter. ZYWL expects a return to double-digit topline growth in FY25.
- The personal care segment witnessed double-digit growth in Q3 driven by *Everyuth* and *Nycil*, whereas the food and nutrition segment continued to face headwinds. As in Q2FY24, *Nutralite* continued to witness good volumes though pricing interventions impacted value growth.
- The sweeteners portfolio was affected by low sales of *Sugarlite* as the Supreme Court allowed ZYWL to clear existing inventory only towards the end of Q3FY24 and permitted litigation relating to the product’s health concerns to continue in the trial court.
- The glucose powder category grew at 4.4% YoY (MAT basis) for the quarter. *Glucon-D* has grown faster than the category in Q3 and maintained its number one position with 60% market share.
- The health food drink category grew 5.8% YoY MAT. *Complan*’s market share stood at 4.3% and it registered volume growth in Q3 owing to continuous efforts and interventions by the company to generate demand.
- ZYWL continues to push consumption of *SugarFree Green* largely by way of a new media campaign with Katrina Kaif and a digital campaign during the Cricket World Cup. The brand maintained its leadership with 96% market share.
- The face scrub category has grown 7.6% YoY MAT. *Everyuth* scrub maintained its leadership position with 44.4% market share, expanding 263bps YoY.
- The peel-off category grew 4% YoY MAT and *Everyuth* peel-off retained its number one position with market share of 79.5%, up 113bps.
- The prickly heat powder category grew 2% YoY MAT. *Nycil* has grown faster than the category and maintained its number one position with 35.1% market share.

## Valuation methodology

ZYWL has been able to maintain leadership in key categories despite macro headwinds, anchored by strong growth in the personal care businesses. However, the food & nutrition segment has had a disappointing December quarter, even accounting for seasonal weakness. Gross margin improved during the quarter, though higher employee, A&P spend and other expenses dented the operating margin.

Considering the weak performance, we retain our HOLD rating on the stock. Our TP moves to Rs 1,531 (earlier Rs 1,556) as we roll valuations over to FY26E and reset to a 21x P/E multiple (earlier 22x) – in line with the stock's 10-year average multiple.

## Key risks

Key downside risks to our estimates are:

- market share loss in health food drinks, and
- sustained delayed recovery in rural markets.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.6	4,970	5,980	BUY
Dabur India	DABUR IN	11.6	537	673	BUY
Godrej Consumer Products	GCPL IN	14.9	1,199	1,363	HOLD
Hindustan Unilever	HUVR IN	68.2	2,386	2,895	BUY
ITC	ITC IN	61.8	407	532	BUY
Marico	MRCO IN	8.2	525	618	BUY
Nestle India	NEST IN	28.8	2,459	2,826	BUY
Tata Consumer Products	TATACONS IN	13.0	1,122	1,330	BUY
Zydus Wellness	ZYWL IN	1.2	1,582	1,531	HOLD

Source: BOBCAPS Research, NSE | Price as of 12 Feb 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>20,091</b>	<b>22,549</b>	<b>23,509</b>	<b>26,354</b>	<b>29,547</b>
EBITDA	3,447	3,373	2,886	4,314	4,902
Depreciation	236	250	241	303	303
EBIT	3,211	3,122	2,645	4,011	4,599
Net interest inc./(exp.)	255	161	207	60	24
Other inc./(exp.)	104	49	115	65	65
Exceptional items	0	101	1	1	1
EBT	3,060	2,910	2,552	4,015	4,639
Income taxes (29)	(195)	(109)	(109)	0	0
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>3,088</b>	<b>3,105</b>	<b>2,661</b>	<b>4,015</b>	<b>4,639</b>
Adjustments	0	101	1	1	1
<b>Adjusted net profit</b>	<b>3,088</b>	<b>3,205</b>	<b>2,662</b>	<b>4,016</b>	<b>4,640</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	3,643	3,133	3,199	3,490	3,906
Other current liabilities	345	386	403	451	506
Provisions	347	410	421	456	496
Debt funds	3,815	2,925	1,800	700	300
Other liabilities	333	250	258	283	310
Equity capital	636	636	636	636	636
Reserves & surplus	47,804	50,590	52,586	55,597	59,076
Shareholders' fund	48,440	51,227	53,222	56,233	59,712
<b>Total liab. and equities</b>	<b>56,922</b>	<b>58,331</b>	<b>59,304</b>	<b>61,615</b>	<b>65,230</b>
Cash and cash eq.	1,154	370	809	1,826	3,823
Accounts receivables	1,423	2,078	2,167	2,429	2,723
Inventories	3,616	4,575	4,671	5,096	5,703
Other current assets	1,673	1,356	1,413	1,582	1,771
Investments	270	700	700	700	700
Net fixed assets	2,445	2,704	2,929	3,148	3,430
CWIP	119	130	130	130	130
Intangible assets	44,655	44,620	44,620	44,620	44,620
Deferred tax assets, net	1,298	1,493	1,556	1,745	1,956
Other assets	268	300	310	340	373
<b>Total assets</b>	<b>56,922</b>	<b>58,331</b>	<b>59,304</b>	<b>61,615</b>	<b>65,230</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>2,409</b>	<b>930</b>	<b>2,741</b>	<b>3,855</b>	<b>4,346</b>
Capital expenditures	(754)	(450)	(467)	(522)	(585)
Change in investments	(205)	(413)	0	0	0
Other investing cash flows	100	14	42	(153)	(180)
<b>Cash flow from investing</b>	<b>(860)</b>	<b>(848)</b>	<b>(425)</b>	<b>(675)</b>	<b>(765)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,683)	(890)	(1,125)	(1,100)	(400)
Interest expenses	(325)	(159)	(207)	(60)	(24)
Dividends paid	(319)	(319)	(665)	(1,004)	(1,160)
Other financing cash flows	(12)	(17)	0	0	0
<b>Cash flow from financing</b>	<b>(2,338)</b>	<b>(1,385)</b>	<b>(1,997)</b>	<b>(2,163)</b>	<b>(1,583)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(829)</b>	<b>(1,316)</b>	<b>427</b>	<b>1,017</b>	<b>1,998</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,698</b>	<b>382</b>	<b>809</b>	<b>1,826</b>	<b>3,823</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	48.6	48.8	41.8	63.1	72.9
Adjusted EPS	48.6	50.4	41.8	63.1	72.9
Dividend per share	74.5	5.0	10.5	15.8	0.0
Book value per share	761.6	805.4	836.8	884.2	0.0

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.0	4.5	4.3	3.8	3.4
EV/EBITDA	29.2	29.8	34.9	23.3	20.5
Adjusted P/E	32.6	31.4	37.8	25.1	21.7
P/BV	2.1	2.0	1.9	1.8	

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	100.9	106.7	104.3	100.0	0.0
Interest burden (PBT/EBIT)	96.2	99.4	100.6	100.1	0.0
EBIT margin (EBIT/Revenue)	16.0	13.8	11.2	15.2	0.0
Asset turnover (Rev./Avg TA)	35.3	38.7	39.6	42.8	0.0
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	0.0
Adjusted ROAE	6.4	6.1	5.0	7.1	0.0

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	7.6	12.2	4.3	12.1	12.1
EBITDA	0.1	(2.2)	(14.4)	49.5	13.6
Adjusted EPS	160.1	0.5	(14.3)	50.9	15.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.2	15.0	12.3	16.4	16.6
EBIT margin	16.0	13.8	11.2	15.2	15.6
Adjusted profit margin	15.4	14.2	11.3	15.2	15.7
Adjusted ROAE	6.4	6.1	5.0	7.1	0.0
ROCE	6.1	5.8	4.8	7.0	0.0
<b>Working capital days (days)</b>					
Receivables	26	34	34	34	34
Inventory	135	146	146	146	146
Payables	136	100	100	100	100
<b>Ratios (x)</b>					
Gross asset turnover	0.3	0.4	0.4	0.4	0.0
Current ratio	1.1	1.3	1.7	2.2	0.0
Net interest coverage ratio	12.6	19.4	12.8	67.2	0.0
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%

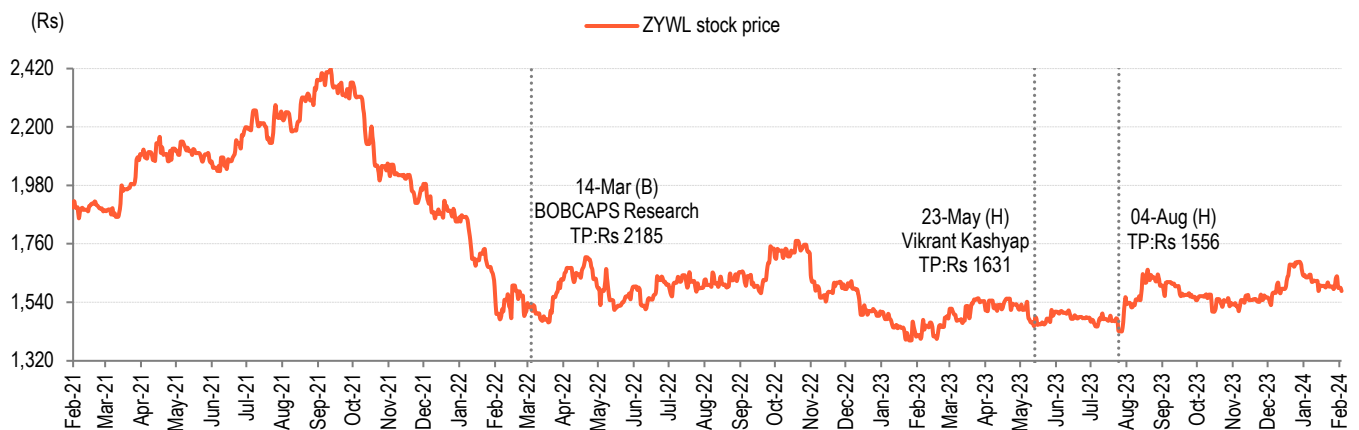
**HOLD** – Expected return from -6% to +15%

**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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