

HOLD
 TP: Rs 1,987 | ▲ 11%

ZYDUS WELLNESS

Consumer Staples

05 February 2025

Margin focus over reinvestments

- Q3FY25 sales came in 2% above consensus while EBITDA was 2% lower due to 15bps lower-than-expected margins
- We expect FY27 margins to be lower than company guidance due to likely negative operating leverage on repeated reinvestment cuts
- An overt focus on margins over reinvestments by the category leader can potentially slow industry and Zydus’ own sales growth. **HOLD**

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Sales beat but EBITDA miss: Compared to Bloomberg consensus, Zydus Wellness’ 3QFY25 sales came in 2% above consensus (4% above our estimate), while EBITDA was 2% lower due to 15bps lower-than-expected margins (225bps below our estimate). On a YoY basis, sales were +15% while EBITDA increased 17% driven by 5bps improvement in margins. Cost pressure continued on edible oils and Dextrose while Sucralose was favourable. A combination of pricing procurement savings and efficiencies helped offset inflation and improve margins.

Q3FY25 sales trends YoY: Food & Nutrition sales increased 9%. Personal Care sales were +50%. MAT to December market share of Complian was down 20bps while Glucon D was down 130bps. Personal Care did better with shares up 100bps to 400bps in the everyuth portfolio.

Keeping a flexible approach to margins: Zydus is focused on improving EBITDA margins to 17%-18%. We see two key issues. First, Zydus adjusts A&P and other reinvestments to manage profits. Such an approach by the category leader can potentially lead to a slowdown in the pace of category growth and its own sales growth. This translates into negative operating leverage to ultimately hurt margins. Naturell is a margin-dilutive acquisition.

Our view: Zydus Wellness is overtly focused on margin gains and is adjusting business reinvestments to meet targets. Sales impact won’t be immediate but will reflect in a few quarters along with negative operating leverage. We value Zydus at 30x, in line with its 5Y historical average P/E on 12M to Dec’26 EPS. Our TP changes to Rs 1,987 from Rs 1,941. Share price return of 12% – **HOLD**.

(Rs mn)	Actual			Reported vs (%)	
	3Q24	3Q25	YoY (%)	BoBCaps	Cons.
Sales	4,032	4,619	14.6	4.1	2.3
EBITDA	127	148	16.5	(38.8)	(2.3)
EBITDA margin (%)	3.1	3.2	5bps	(225bps)	(15bps)

Source: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ZYWL IN/Rs 1,783
Market cap	US\$ 1.3bn
Free float	21%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 2,484/Rs 1,440
Promoter/FPI/DII	69%/3%/28%

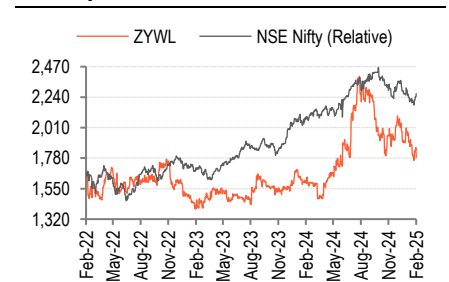
Source: NSE | Price as of 4 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	23,278	26,583	29,222
EBITDA (Rs mn)	3,082	3,809	4,416
Adj. net profit (Rs mn)	2,811	3,454	4,118
Adj. EPS (Rs)	44.2	54.3	64.7
Consensus EPS (Rs)	44.2	60.7	71.3
Adj. ROAE (%)	5.4	6.3	7.0
Adj. P/E (x)	40.3	32.8	27.5
EV/EBITDA (x)	37.6	30.4	25.8
Adj. EPS growth (%)	(12.3)	22.9	19.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Q3FY25 result review

Earnings revisions

We reduce our sales forecasts through FY25-FY27. The company is overtly focused on margins and cutting A&P. We expect an adverse impact on sales and operating leverage. Our FY27E margins are now at 15.4% vs company target of 17-18%. Negative operating leverage is the main reason. The newly-acquired business of Naturell is margin dilutive. With current margins at 3%-5%, while an improvement is likely with scale and synergy, we do not expect Naturell to be at par with group margins.

Fig 1 – Zydus Wellness earnings revisions

(Rs mn)	Actual	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY24	FY25E	FY25E	Change	FY26E	FY26E	Change	FY27E	FY27E	Change
Sales	23,278	26,583	26,725	(0.5)	29,222	29,558	(1.1)	31,033	33,105	(6.3)
EBITDA	3,082	3,809	4,051	(6.0)	4,416	4,531	(2.5)	4,785	5,844	(18.1)
EBITDA Margin (%)	13.2	14.3	15.2	(83bps)	15.1	15.3	(22bps)	15.4	17.7	(223bps)
Adj. PAT	2,811	3,454	3,984	(13.3)	4,118	4,221	(2.5)	4,098	5,568	(26.4)
Adj. EPS	44.20	54.31	62.62	(13.3)	64.74	66.34	(2.4)	64.44	87.51	(26.4)

Source: Company, Bloomberg, BOBCAPS Research

Valuation

We value Zydus Wellness at 30x, in line with its 5Y historical average P/E on 12M to Dec'26 EPS. Our TP changes to Rs 1,987 from Rs 1,941. Share price return of 12% – HOLD.

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.

Key upside risks to our estimates are:

- market share gains in health food drinks, and
- stronger than expected recovery in rural markets.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	22,548	23,278	26,583	29,222	31,033
EBITDA	3,372	3,082	3,809	4,416	4,785
Depreciation	250	238	211	248	266
EBIT	3,121	2,844	3,598	4,168	4,520
Net interest inc./(exp.)	(161)	(240)	(93)	(62)	(62)
Other inc./(exp.)	49	139	207	369	540
Exceptional items	101	142	(59)	0	0
EBT	3,009	2,743	3,711	4,476	4,998
Income taxes	(195)	(68)	257	358	900
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	3,104	2,669	3,513	4,118	4,098
Adjustments	101	142	(59)	0	0
Adjusted net profit	3,204	2,811	3,454	4,118	4,098

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,133	3,629	3,355	3,665	3,845
Other current liabilities	866	825	774	774	774
Provisions	133	159	173	173	173
Debt funds	2,925	3,240	1,500	1,500	1,500
Other liabilities	47	56	49	49	49
Equity capital	636	636	636	636	636
Reserves & surplus	50,590	52,939	56,134	59,899	63,602
Shareholders' fund	51,227	53,575	56,770	60,535	64,238
Total liab. and equities	58,331	61,484	62,621	66,696	70,579
Cash and cash eq.	370	800	2,693	6,059	9,436
Accounts receivables	2,078	2,833	1,854	2,039	2,143
Inventories	4,575	4,676	3,728	4,062	4,263
Other current assets	2,062	4,191	5,283	5,283	5,283
Investments	0	0	0	0	0
Net fixed assets	2,833	2,564	2,679	2,869	3,069
CWIP	0	0	0	0	0
Intangible assets	44,620	44,608	44,603	44,603	44,603
Deferred tax assets, net	0	0	0	0	0
Other assets	1,792	1,812	1,781	1,781	1,781
Total assets	58,331	61,484	62,621	66,696	70,579

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	917	2,464	5,594	3,927	3,873
Capital expenditures	(450)	(285)	(390)	(438)	(466)
Change in investments	(437)	(39)	(2,836)	0	0
Other investing cash flows	39	131	125	291	426
Cash flow from investing	(848)	(193)	(3,101)	(147)	(39)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(890)	315	(1,740)	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(319)	(319)	(318)	(353)	(396)
Other financing cash flows	(176)	(253)	(129)	(62)	(62)
Cash flow from financing	(1,385)	(257)	(2,187)	(414)	(457)
Chg in cash & cash eq.	(1,849)	3,598	(1,281)	3,366	3,377
Closing cash & cash eq.	370	800	2,693	6,059	9,436

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	48.8	41.9	55.2	64.7	64.4
Adjusted EPS	50.4	44.2	54.3	64.7	64.4
Dividend per share	5.0	5.0	5.5	6.2	6.0
Book value per share	805.1	842.4	892.6	951.8	1,010.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.2	5.0	4.4	3.9	3.6
EV/EBITDA	34.6	37.6	30.4	25.8	23.1
Adjusted P/E	35.4	40.3	32.8	27.5	27.7
P/BV	2.2	2.1	2.0	1.9	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	106.5	102.5	93.1	92.0	82.0
Interest burden (PBT/EBIT)	96.4	96.4	103.1	107.4	110.6
EBIT margin (EBIT/Revenue)	13.8	12.2	13.5	14.3	14.6
Asset turnover (Rev./Avg TA)	39.1	38.9	42.8	45.2	45.2
Leverage (Avg TA/Avg Equity)	1.2	1.1	1.1	1.1	1.1
Adjusted ROAE	6.4	5.4	6.3	7.0	6.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	12.2	3.2	14.2	9.9	6.2
EBITDA	(2.2)	(8.6)	23.6	15.9	8.4
Adjusted EPS	3.7	(12.3)	22.9	19.2	(0.5)
Profitability & Return ratios (%)					
EBITDA margin	15.0	13.2	14.3	15.1	15.4
EBIT margin	13.8	12.2	13.5	14.3	14.6
Adjusted profit margin	14.2	12.1	13.0	14.1	13.2
Adjusted ROAE	6.4	5.4	6.3	7.0	6.6
ROCE	6.1	5.3	6.3	6.9	7.0
Working capital days (days)					
Receivables	28	39	32	24	25
Inventory	130	148	122	104	105
Payables	108	108	102	94	95
Ratios (x)					
Gross asset turnover	4.6	4.9	5.3	5.3	5.2
Current ratio	1.3	1.6	2.4	2.9	3.5
Net interest coverage ratio	19.4	11.9	38.5	67.6	73.3
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%

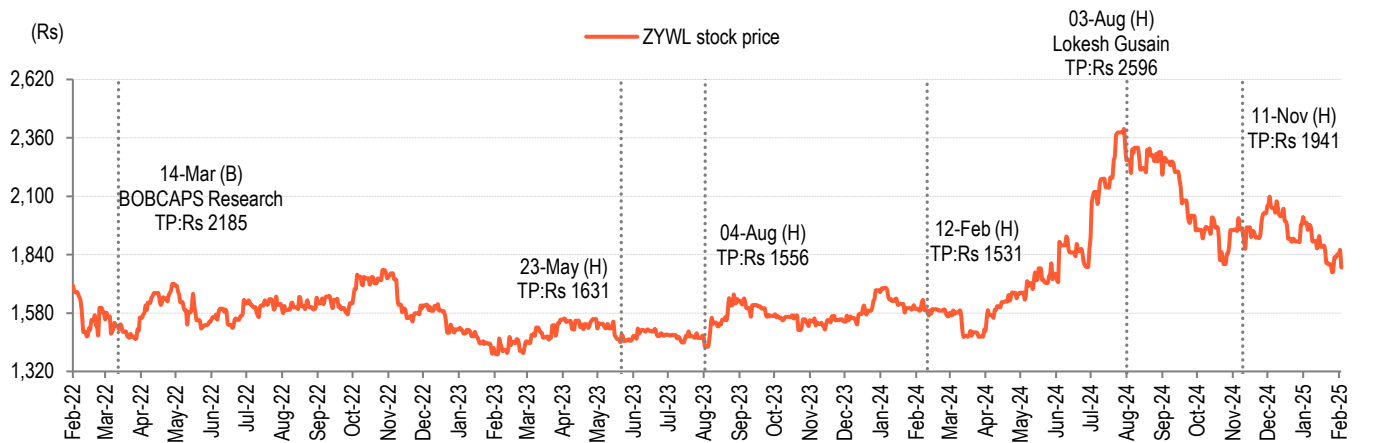
HOLD – Expected return from -6% to +15%

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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