

BUY**TP: Rs 2,185 | ▲ 31%****ZYDUS WELLNESS**

| Consumer Staples

| 18 May 2022

Revival underway; retain BUY

- Q4 revenue grew 5.6% YoY (65% QoQ) to Rs 6.4bn aided by price hikes; volumes muted
- Higher RM cost saw EBITDA decline 3% YoY to Rs 1.4bn with 190bps margin contraction to 22.1%
- Retain BUY for a TP of Rs 2,185 led by product innovation, distribution expansion and Heinz India merger synergies

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Revenue up 5.6% YoY: ZYWL's consolidated Q4FY22 revenue grew 5.6% YoY to Rs 6.4bn led by price hikes. Volumes were flat (+0.4% YoY). ZYWL has taken a 7.5% price increase over the last couple of quarters, of which 5.3% has been implemented. The company plans to take further calibrated price hikes to balance the portfolio.

EBITDA margin contracts: Higher input cost inflation, mainly palm oil, and a change in product mix exerted pressure on margins. Gross margin contracted 375bps YoY to 51% though calibrated price hikes supported sequential improvement of 260bps. EBITDA margin fell 190bps YoY to 22.1%.

Multiple product launches in FY22: Launches include (a) new Complan – relaunched with an enhanced proposition, improved chocolate taste and new packaging, supported by fresh TV commercials and consumer offers, (b) new Everyuth Body Lotion range – a strategic extension into the skincare space, (c) Nutralite Doodhshakti Professional Pure Ghee 1l pouch – launched in Mar'22 to expand reach in food services, institutional and catering industry (HoReCa) channels, (d) new variants of Complan Sugar Free D'lite Cookies and Chocolate Spread in international markets.

Strong outlook for international business: ZYWL's Sugar Free and Complan brands constitutes 93% of international business. The company has entered new markets such as Hong Kong, Lebanon, Zimbabwe, Muscat, Ethiopia and Australia in FY22. Management has guided for high-double-digit growth in the international business, likely crossing Rs 1bn in revenue in FY23. The target is to have 8-10% of revenue come from the business in the next 4-5 years from ~4% in FY22.

Revival underway; retain BUY: ZYWL is trading at 29.3x FY24E EPS. We retain BUY and our TP of Rs 2,185, set at 38x FY24E EPS (in line with its 5Y median) 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. We are also positive on ZYWL's debt reduction measures, faster FCF generation and superior execution.

Key changes

	Target	Rating
	◀ ▶	◀ ▶

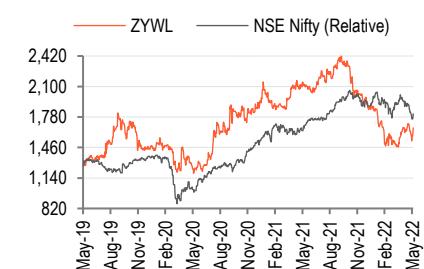
Ticker/Price	ZYWL IN/Rs 1,666
Market cap	US\$ 1.4bn
Free float	35%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 2,477/Rs 1,430
Promoter/FPI/DII	65%/3%/25%

Source: NSE | Price as of 17 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	20,091	22,171	24,815
EBITDA (Rs mn)	3,448	4,412	5,124
Adj. net profit (Rs mn)	3,098	4,014	3,638
Adj. EPS (Rs)	48.4	63.0	56.9
Consensus EPS (Rs)	48.4	63.6	71.1
Adj. ROAE (%)	5.9	7.5	6.5
Adj. P/E (x)	34.4	26.4	29.3
EV/EBITDA (x)	33.4	24.7	20.7
Adj. EPS growth (%)	(19.3)	29.5	(9.5)

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

Stock performance

Source: NSE



Earnings call highlights

Complan

- ZYWL's health food drinks category declined 2% YoY in Q4FY22. Price cuts taken by competitors in the pouch pack (smaller SKUs) led the company to launch a Creamy Classic pouch pack in the state with a promotional offer.
- During the quarter, the company rolled out a new advertising campaign to intensify focus on product nutrition.
- As per Nielsen's MAT Mar'22 report, Complan currently has 5% market share vs. 5.5% Dec'21.

Sugar Free

- The sweeteners portfolio witnessed low-single-digit growth in Q4 on a higher base of last year. However, the portfolio has posted a healthy double-digit CAGR growth over last two years.
- The category is facing challenges as the second Covid-19 wave particularly affected the diabetic population and put pressure on related consumption.
- Sugar Free Green (Stevia) registered a high growth rate during FY22 and helped drive the ecommerce-first approach.
- Sugarlite continued to grow in high double digits during the year with consistent support on the ATL (above the line) and digital front to recruit new consumers into the "healthier sugar" segment.
- ZYWL's Sugar Free brand is firmly holding ground and market share stood at 95.7% as per IQVIA's MAT Mar'22 report.

Glucon-D

- Early onset of summer in key markets during Q4 helped the Glucon-D brand recover and post double-digit growth for the financial year.
- Immunovolt is delivering steady growth, supported by campaigns and distribution drives.
- Glucon-D has maintained its #1 market share at 58.5% in the glucose powder category, as per Nielsen's MAT Mar'22 report.

Everyuth

- Per management, the overall facial cleansing category grew 12% in FY22 and Everyuth outpaced category growth.
- As per Nielsen's MAT Mar'22 report – (a) Everyuth Scrub has maintained its #1 position with 39% market share in the facial scrub category, an increase of 365bps YoY, (b) Everyuth Peel-off has maintained its #1 position with 76.2% market share in the peel-off category, and (c) Everyuth brand is at #5 position with 6.5% market share in the overall facial cleansing segment.

Nycil

- Nycil brand sales were impacted for the second consecutive year due to the third wave of Covid-19. However, the brand has retained its leadership position in the prickly heat segment (maintained its #1 position with 33.7% market share per Nielsen MAT Mar 2022 report) supported by consumer offers and ATL initiatives.
- Management is hopeful of gaining market share owing to the ongoing intense summer season.

Nutralite

- Nutralite has delivered strong double-digit growth for the year. In the spread category, the mayonnaise business has doubled YoY.
- The Nutralite DoodhShakti Dairy portfolio, which was impacted by the second Covid wave post launch, began getting traction in H2FY22 supported by TV, print and digital campaigns.
- Nutralite DoodhShakti Professional Ghee was launched in Mar'22 to expand the company's presence in the institutional channel.

Other highlights

- ZYWL has repaid ~Rs 2bn of debt during FY22 and is targeting to be debt-free by mid of Jun-Jul'23.
- The company currently has 550,000 distribution outlets. Modern trade and ecommerce contribute 18-20% of the topline.

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales	6,398	6,057	5.6	3,881	64.9	20,091	18,667	7.6
COGS	3,144	2,750	14.3	2,007	56.6	9,804	8,449	16.0
% of sales	49.1	45.4	374bps	51.7	(258bps)	48.8	45.3	7.8
Employee cost	401	400	0.1	382	4.9	1,636	1,638	(0.2)
% of sales	6.3	6.6	(35bps)	9.8	(358bps)	8.1	8.8	(7.2)
A&P spends	648	730	(11.2)	532	21.9	2,348	2,296	2.2
% of sales	10.1	12.1	(192bps)	13.7	(357bps)	11.7	12.3	(5.0)
Other expenses	790	723	9.2	637	23.9	2,857	2,840	0.6
% of sales	12.3	11.9	41bps	16.4	(407bps)	14.2	15.2	(6.6)
EBITDA	1,415	1,454	(2.7)	323	338.2	3,448	3,444	0.1
EBITDA Margin (%)	22.1	24.0	(188bps)	18.5	358bps	17.2	18.4	(129bps)
Depreciation and amortization	61	60	1.5	58	4.1	236	252	(6.1)
EBIT	1,354	1,394	(2.8)	265	412.0	3,211	3,192	0.6
EBIT Margin (%)	21.2	23.0	(184bps)	6.8	1,435bps	16.0	17.1	(112bps)
Net Interest expenses	60	85	(29.6)	64	(6.9)	255	838	(69.6)
Other non-operating inc (exp), net	20	18	9.5	27	(27.1)	104	89	16.3
Exceptional items	0	0	-	0	-	0	1,321	-
Earnings before tax	1,314	1,327	(0.9)	227	478.3	3,060	1,122	172.7
Income taxes	(19)	(5)	304.3	(6)	227.6	(29)	(65)	(56.3)
Reported Net income (loss)	1,333	1,331	0.1	233	472.1	3,089	1,187	160.1
Net Margin (%)	20.8	22.0	(114bps)	6.0	1,483bps	15.4	6.4	901bps

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. The stock is currently trading at 29.3x FY24E EPS. We retain BUY and our TP of Rs 2,185, set at 38x FY24E EPS (in line with its five-year median) 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. We are also positive on ZYWL's debt reduction measures, faster FCF generation and superior execution.

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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	17,668	18,667	20,091	22,171	24,815
EBITDA	3,211	3,444	3,448	4,412	5,124
Depreciation	(264)	(252)	(236)	(338)	(375)
EBIT	2,947	3,192	3,211	4,074	4,750
Net interest inc./exp.)	(1,399)	(838)	(255)	(181)	(32)
Other inc./exp.)	107	89	104	109	119
Exceptional items	44	1,321	0	0	0
EBT	1,717	3,783	3,077	4,022	4,857
Income taxes	205	65	29	0	(1,219)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,943	3,867	3,098	4,014	3,638
Adjustments	0	0	0	0	0
Adjusted net profit	1,943	3,867	3,098	4,014	3,638

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	5,045	4,386	3,643	5,130	5,688
Other current liabilities	429	297	677	355	397
Provisions	259	312	347	370	414
Debt funds	15,558	5,991	3,815	815	15
Other liabilities	0	0	0	0	0
Equity capital	577	636	636	636	636
Reserves & surplus	34,030	45,042	47,804	51,776	55,355
Shareholders' fund	34,607	45,678	48,440	52,412	55,991
Total liab. and equities	55,897	56,664	56,922	59,082	62,505
Cash and cash eq.	824	2,527	1,698	2,789	5,057
Accounts receivables	1,182	943	1,423	1,109	1,241
Inventories	2,923	3,647	3,616	4,157	4,601
Other current assets	1,396	1,166	919	1,355	1,516
Investments	40,304	39,200	39,470	39,470	39,470
Net fixed assets	2,047	1,996	2,445	2,726	2,902
CWIP	35	37	119	51	57
Intangible assets	5,488	5,478	5,455	5,455	5,455
Deferred tax assets, net	0	0	1,298	0	0
Other assets	1,697	1,670	478	1,971	2,206
Total assets	55,897	56,664	56,922	59,082	62,505

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	1,606	3,109	1,512	6,185	3,919
Capital expenditures	(169)	(203)	(767)	(551)	(557)
Change in investments	(643)	1,104	(270)	0	0
Other investing cash flows	49	37	1,215	(1,493)	(235)
Cash flow from investing	843	4,047	1,690	4,141	3,128
Equities issued/Others	(1,171)	7,233	(305)	(4)	(21)
Debt raised/repaid	(484)	(9,567)	(2,176)	(3,000)	(800)
Interest expenses	0	0	0	0	0
Dividends paid	(28)	(28)	(31)	(38)	(38)
Other financing cash flows	22	18	(8)	(8)	0
Cash flow from financing	(819)	1,703	(829)	1,091	2,269
Chg in cash & cash eq.	1,643	824	2,527	1,698	2,789
Closing cash & cash eq.	824	2,527	1,698	2,789	5,057

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	31.9	18.9	48.4	63.0	56.9
Adjusted EPS	31.9	18.9	48.4	63.0	56.9
Dividend per share	0.4	0.4	0.4	0.5	0.5
Book value per share	600.2	717.9	761.3	823.7	880.0

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	6.3	6.5	5.7	4.9	4.3
EV/EBITDA	34.7	35.0	33.4	24.7	20.7
Adjusted P/E	52.3	87.9	34.4	26.4	29.3
P/BV	2.8	2.3	2.2	2.0	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	111.9	102.2	100.9	100.0	74.9
Interest burden (PBT/EBIT)	56.2	115.3	92.8	96.2	99.8
EBIT margin (EBIT/Revenue)	17.3	17.6	16.5	18.9	19.6
Asset turnover (Rev./Avg TA)	189.3	188.3	193.1	193.2	176.6
Leverage (Avg TA/Avg Equity)	0.3	0.2	0.2	0.2	0.3
Adjusted ROAE	5.6	9.6	6.6	8.0	6.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	109.6	5.7	7.6	10.4	11.9
EBITDA	73.7	7.3	0.1	28.0	16.1
Adjusted EPS	3.9	81.5	(19.3)	29.5	(9.5)
Profitability & Return ratios (%)					
EBITDA margin	18.2	18.4	17.2	19.9	20.7
EBIT margin	16.7	17.1	16.0	18.4	19.1
Adjusted profit margin	11.0	20.7	15.4	18.1	14.7
Adjusted ROAE	3.7	2.3	5.9	7.5	6.5
ROCE	6.9	6.8	6.4	7.9	6.7
Working capital days (days)					
Receivables	24	18	26	18	18
Inventory	135	155	133	150	150
Payables	126	104	79	104	104
Ratios (x)					
Gross asset turnover	0.4	0.4	0.4	0.4	0.4
Current ratio	1.2	1.7	2.0	1.7	2.0
Net interest coverage ratio	2.2	3.9	13.0	23.2	150.4
Adjusted debt/equity	0.4	0.1	0.0	0.0	(0.1)

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

Disclaimer

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

BUY – Expected return >+15%

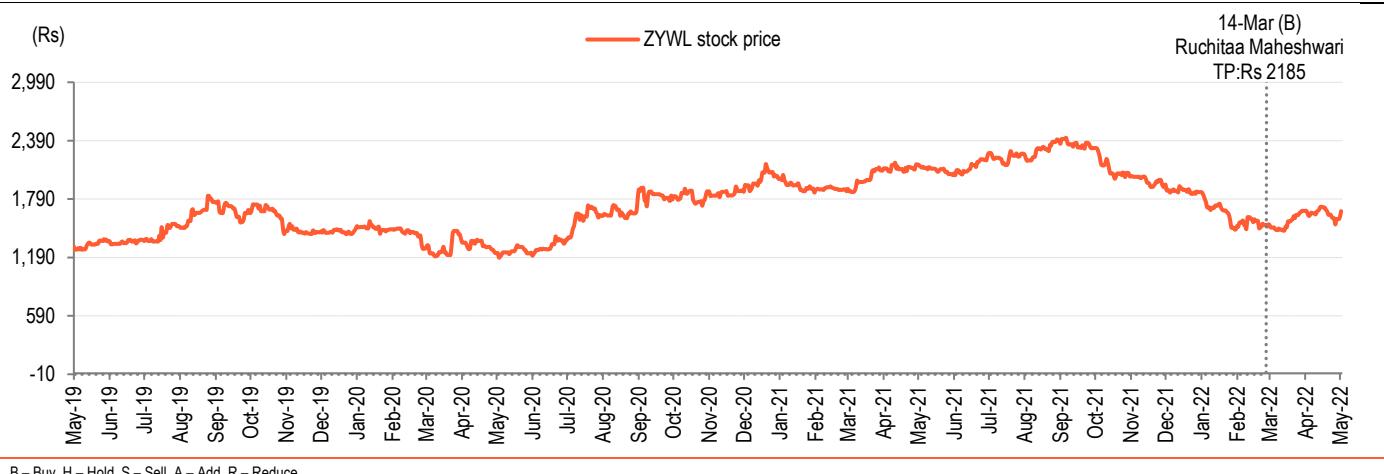
HOLD – Expected return from -6% to +15%

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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