

## ZYDUS WELLNESS

MIDCAPS

03 FEB 2017

Quarterly Update

**HOLD**

Target Price: Rs 840

### Category adoption takes a rain check

Q3FY17 net sales (net of excise) at Rs 1.03 bn were flat YoY – in line with our estimate and once again range-bound in quarterly run-rate of Rs 950-1,100 mn. Despite meaningful investments for category adoption (20% of sales on advertising/distribution over past 10 quarters), the wellness market has not taken off yet in India though we continue to believe that the opportunity size is immense.

The management attributed subdued sales in Q3 to demonetization, felt more severely in the wholesale channel. Gross margin declined ~300 bps YoY on higher raw material prices (palm oil). EBITDA margin declined by ~150 bps YoY at the cost of lower ad spend (-350 bps). Reported PAT at Rs 251 mn, lower 8% YoY. Our estimates remain unchanged. Maintain **HOLD** and TP at **Rs 840 (25x FY18 EPS)**.

CMP : Rs 884  
Potential Upside : -5%

#### MARKET DATA

No. of Shares : 39 mn  
Free Float : 27%  
Market Cap : Rs 35 bn  
52-week High / Low : Rs 930 / Rs 632  
Avg. Daily vol. (6mth) : 19,149 shares  
Bloomberg Code : ZYWL IB Equity  
Promoters Holding : 73%  
FII / DII : 8% / 6%

### Key highlights

EverYuth category was most affected due to liquidity crunch on account of demonetization, while Sugarfree and Nutralite held their ground rather well given a sticky customer base. The company indicated recovery in sales towards the last few weeks of the quarter.

As per Neilson data cited by the company, at the MAT level (Moving Annual Total):

- ♦ Artificial sweetener category grew 7.3% and Sugar Free's market share improved 60 bps to 94.2%
- ♦ Scrubs category grew 6.6% YoY and EverYuth maintained #1 market share at 30.4%
- ♦ Peel-off category grew 4.9% YoY; and, EverYuth maintained #1 market share at 90.9%

Nutralite witnessed consistent volume growth in the quarter

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#### Financial summary (Consolidated)

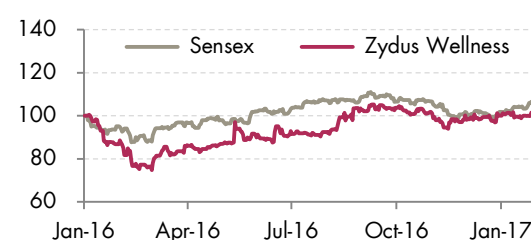
Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	4,307	4,295	4,524	5,074
Adj PAT (Rs mn)	1,089	1,019	1,120	1,309
Con. EPS* (Rs.)	-	-	29.7	33.9
EPS (Rs.)	27.9	26.1	28.7	33.5
Change YOY (%)	8.8	(6.5)	9.9	16.9
P/E (x)	31.7	33.9	30.8	26.4
RoE (%)	29.8	23.1	21.6	21.4
RoCE (%)	31.8	25.4	23.9	23.9
EV/EBITDA (x)	31.2	34.5	30.8	25.7
DPS	6.0	7.0	8.0	8.0

Source: \*Consensus broker estimates, Company, Axis Capital

#### Key drivers (%)

	FY16	FY17E	FY18E
Revenue growth	0	5	12
Core EBITDA margin	21.2	22.0	22.8

#### Price performance



**Exhibit 1: Results update**

(Rs mn)	Quarter ended					Year ended		
	Dec-16	Dec-15	% Chg	Sep-16	% Chg	FY17E	FY16	% Chg
<b>Net Sales</b>	<b>1,031</b>	<b>1,036</b>	<b>(0.4)</b>	<b>1,051</b>	<b>(1.9)</b>	<b>4,524</b>	<b>4,295</b>	<b>5.3</b>
EBITDA	223	239	(7.0)	305	(27.0)	995	912	9.1
Other income	81	89	(9.0)	79	1.8	350	310	12.9
<b>PBITD</b>	<b>303</b>	<b>328</b>	<b>(7.6)</b>	<b>384</b>	<b>(21.0)</b>	<b>1,345</b>	<b>1,222</b>	<b>10.1</b>
Depreciation	18	17	5.9	18	(0.6)	75	68	10.1
Interest	1	0	100.0	0	166.7	1	1	0.0
<b>PBT</b>	<b>285</b>	<b>311</b>	<b>(8.4)</b>	<b>366</b>	<b>(22.2)</b>	<b>1,268</b>	<b>1,152</b>	<b>10.1</b>
<b>Adjusted PAT</b>	<b>251</b>	<b>274</b>	<b>(8.2)</b>	<b>321</b>	<b>(21.6)</b>	<b>1,120</b>	<b>1,019</b>	<b>9.9</b>
No. of shares (mn)	39	39	-	39	-	39	39	-
EBITDA margin (%)	21.6	23.1	-	29.0	-	22.0	21.2	-
PBITD margin (%)	29.4	31.7	-	36.5	-	29.7	28.4	-
<b>EPS - annualized (Rs.)</b>	<b>25.7</b>	<b>28.0</b>	<b>(8.2)</b>	<b>32.8</b>	<b>(21.6)</b>	<b>28.7</b>	<b>26.1</b>	<b>9.9</b>

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**Other highlights**

- ◆ The new advertising campaign '*smartness wali sweetness*' featuring brand ambassador Parineeti Chopra will continue in Q4FY17. Two new sugar free variants will also be launched in the next quarter
- ◆ Nutralite premium range to be reintroduced with new packaging; Also, two new flavors of Nutralite will be available Q4 onwards
- ◆ New TV campaign was launched for Scrubs in Q3; plan to relaunch Tulsi Turmeric face wash in Q4FY17

## Financial summary (Consolidated)

### Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	4,307	4,295	4,524	5,074
Other operating income	-	-	-	-
<b>Total operating income</b>	<b>4,307</b>	<b>4,295</b>	<b>4,524</b>	<b>5,074</b>
Cost of goods sold	(911)	(1,207)	(1,267)	(1,421)
Gross profit	3,397	3,088	3,257	3,653
<i>Gross margin (%)</i>	<i>78.9</i>	<i>71.9</i>	<i>72.0</i>	<i>72.0</i>
Total operating expenses	(2,398)	(2,176)	(2,263)	(2,496)
<b>EBITDA</b>	<b>999</b>	<b>912</b>	<b>995</b>	<b>1,157</b>
<i>EBITDA margin (%)</i>	<i>23.2</i>	<i>21.2</i>	<i>22.0</i>	<i>22.8</i>
Depreciation	(77)	(68)	(75)	(75)
<b>EBIT</b>	<b>922</b>	<b>844</b>	<b>920</b>	<b>1,082</b>
Net interest	(1)	(1)	(1)	(1)
Other income	276	310	350	400
<b>Profit before tax</b>	<b>1,196</b>	<b>1,152</b>	<b>1,268</b>	<b>1,481</b>
Total taxation	(85)	(113)	(127)	(148)
<i>Tax rate (%)</i>	<i>7.1</i>	<i>9.8</i>	<i>10.0</i>	<i>10.0</i>
Profit after tax	1,111	1,039	1,142	1,333
Minorities	(22)	(20)	(22)	(24)
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	1,089	1,019	1,120	1,309
<i>Adj. PAT margin (%)</i>	<i>25.3</i>	<i>23.7</i>	<i>24.8</i>	<i>25.8</i>
Net non-recurring items	-	-	-	-
Reported net profit	1,089	1,019	1,120	1,309

### Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	391	391	391	391
Reserves & surplus	3,670	4,381	5,210	6,230
Net worth	4,060	4,772	5,601	6,621
Borrowing	-	-	-	-
Other non-current liabilities	55	59	10	10
<b>Total liabilities</b>	<b>4,184</b>	<b>4,917</b>	<b>5,697</b>	<b>6,717</b>
Gross fixed assets	1,129	1,175	1,250	1,325
Less: Depreciation	(285)	(353)	(428)	(502)
Net fixed assets	844	823	823	823
Add: Capital WIP	2	-	-	-
Total fixed assets	846	823	823	823
Total Investment	-	927	927	927
Inventory	260	241	242	272
Debtors	15	28	29	33
Cash & bank	3,390	3,045	3,890	4,805
Loans & advances	568	596	339	381
Current liabilities	896	763	674	757
Net current assets	3,337	3,146	3,827	4,733
Other non-current assets	-	20	120	234
<b>Total assets</b>	<b>4,184</b>	<b>4,916</b>	<b>5,697</b>	<b>6,717</b>

Source: Company, Axis Capital

### Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	1,196	1,152	1,268	1,481
Depreciation & Amortisation	77	68	75	75
<i>Chg in working capital</i>	<i>(209)</i>	<i>(154)</i>	<i>165</i>	<i>8</i>
<b>Cash flow from operations</b>	<b>693</b>	<b>951</b>	<b>1,380</b>	<b>1,414</b>
<i>Capital expenditure</i>	<i>(42)</i>	<i>(44)</i>	<i>(75)</i>	<i>(75)</i>
<b>Cash flow from investing</b>	<b>294</b>	<b>(662)</b>	<b>275</b>	<b>325</b>
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Dividend paid</i>	<i>(233)</i>	<i>(273)</i>	<i>(313)</i>	<i>(313)</i>
<b>Cash flow from financing</b>	<b>(225)</b>	<b>(589)</b>	<b>(708)</b>	<b>(708)</b>
Net chg in cash	762	(299)	947	1,031

### Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
<b>OPERATIONAL</b>				
FDEPS (Rs)	27.9	26.1	28.7	33.5
CEPS (Rs)	29.9	27.8	30.6	35.4
DPS (Rs)	6.0	7.0	8.0	8.0
Dividend payout ratio (%)	21.5	26.8	27.9	23.9
<b>GROWTH</b>				
Net sales (%)	6.7	(0.3)	5.3	12.2
EBITDA (%)	7.2	(8.7)	9.1	16.3
Adj net profit (%)	8.8	(6.5)	9.9	16.9
FDEPS (%)	8.8	(6.5)	9.9	16.9
<b>PERFORMANCE</b>				
RoE (%)	29.8	23.1	21.6	21.4
RoCE (%)	31.8	25.4	23.9	23.9
<b>EFFICIENCY</b>				
Asset turnover (x)	6.1	3.4	2.5	2.7
Sales/ total assets (x)	0.9	0.8	0.8	0.7
Working capital/ sales (x)	-	-	-	-
Receivable days	1.2	2.3	2.3	2.3
Inventory days	28.7	26.0	25.1	25.3
Payable days	67.3	72.4	69.8	70.5
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	-	-	-	-
Net debt/ equity (x)	(0.9)	(0.7)	(0.7)	(0.8)
Current ratio (x)	4.7	5.1	6.7	7.3
Interest cover (x)	709.1	648.9	707.5	832.6
<b>VALUATION</b>				
PE (x)	31.7	33.9	30.8	26.4
EV/ EBITDA (x)	31.2	34.5	30.8	25.7
EV/ Net sales (x)	7.2	7.3	6.8	5.9
PB (x)	8.5	7.2	6.2	5.2
Dividend yield (%)	0.7	0.8	0.9	0.9
Free cash flow yield (%)	1.9	2.6	3.8	3.9

Source: Company, Axis Capital

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## Research Team

Sr. No	Name	Designation	E-mail
1	Akhand Singh	Research Analyst	<a href="mailto:akhand.singh@axissecurities.in">akhand.singh@axissecurities.in</a>
2	Sankar Narayanan	Database Manager	<a href="mailto:sankar.narayanan@axissecurities.in">sankar.narayanan@axissecurities.in</a>

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