



COMPANY NAME : **Zydus Wellness**

BSE Code : **531335**

Time Duration : **1 year**

CMP : **₹1340.00 (as on 16 Apr., 2020)**

Target Price : **₹1755**

Mid Bridge recommendation for the month of April is Zydus Wellness. It is engaged in the production, sales, distribution and branding of healthcare and personal care food products. The company is held and promoted by healthcare measure Cadila Healthcare Ltd. Top brands such as SugarFree, Everyuth, GluconD are owned by Zydus Wellness. The company has pan India presence in terms of marketing distribution and retail outlets.

### Leadership position

The market share of top brands stood at SugarFree (94 per cent), Everyuth (85 per cent), GluconD (60 per cent) and Everyuth face wash (33 per cent). These products with such a large market share give sustainability to it. Strong branding helps the company capitalise on the demand and customer recognition. Further, this factor also helps the company in easy introduction of its new products. Zydus Wellness has historically used such factors to good effect. Initially, starting with healthcare food, SugarFree grabbed market share and in skincare product, Everyuth did. The product mix has expanded to other segments with brands such as Complian, Nutrilite and Nycil.

### Strategic acquisitions

The company made very important and strategic acquisition of Heinz India's consumer product business which included Complian, GluconD, Nycil, Sampriti Ghee. Acquired business included manufacturing facilities in Aligarh and Sitarganj etc. The acquisition is also important looking at its network of 2,000 wholesalers and 800 distributors in 29 states. Further, the acquired business certainly has a potential to create economies of scale for the company in the medium to long-term along with various synergistic benefits. Such a wide product mix and categories can certainly help the company in maintaining its presence at the customer level.

Even on the financial front, the company has created huge scope for long-term growth. The annual revenue trajectory increased to Rs 1,500 crore from Rs 500 crore for the earlier fiscal. The acquisition is done using a mix of debt and equity. The equity in the range of Rs 2,775 crore was raised via issue of preference shares to Cadila Healthcare, Zydus Family Trust, True North and Pioneer Investment Funds. NCDs generated Rs 1,500 crore and Rs 550 crore via internal accruals. Such a mix of fundraising has kept its leverage lower.

### Different product, different scope

The company is well-placed to gain from SugarFree business, which stands out in the industry. It is being the flagship product, contributing highly in the growth of the company. Here, the company has further added few more speciality-based product types such as sucrose-based, Aspartame (another type of artificial sweetener with low calories) and stevia leaves-based sweetener substitute.

When we look deeper into its product differentiation, we will see further growth, which is a result of season-based demand. For example, Nycil has wide varieties of heat powder and talcum powder. It has further sub-classification that includes cool herbal, excel, classic etc. for this one product. This depicts that the company consistently pushes for higher penetration.

### Financial Performance

On the financial front, the company has registered a strong growth of 28 per cent CAGR in revenue in the last three financial years. Further, during the same period, its profit grew at 15 per cent CAGR. The palm oil price fluctuations pushed its operating margins down to 30 per cent in FY19, from 40 per cent in FY18. The financials hereafter would be driven by the core strength of branding and utilisation of expanded reach to the customers.

The consolidated financial number of the quarter also includes the operating results of Heinz India's acquired business. Thus, the recent quarterly numbers are not much, in comparison to its previous years.

### Valuation and Outlook

The stock is currently trading at PE multiple of 9x and TTM EPS of Rs 27.36. Its valuations are justified by strong brand positioning, which the company enjoys. For its key product, SugarFree and EverYuth already hold top position in the retailer shelf. Though, the talcum powder and Complian can face severe competitive intensity in future but because of the lower contribution, we expect these products to stabilise over time. Further, combined distribution network can help penetration of these products, giving the company a competitive edge. We recommend BUY the scrip with price target of Rs 1755.

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### Inc/Exp Statement (Standalone)

Description	201903	201803	201703	201603	201503
Net Sales	254.61	264.15	225.19	199.75	219.11
Total Income	315.16	291.69	249.74	229.87	239.56
Total Expenditure	185.46	152.47	136.77	122.23	126.24
PBIDT	129.70	139.22	112.97	107.64	113.32
PAT	96.30	133.80	109.34	103.26	108.95
Dividend %	50.00	80.00	65.00	65.00	60.00
Adj. EPS(Rs)	16.7	34.25	27.99	26.43	27.89

### Quarter On Quarter (Standalone)

Particulars	201912	201909	Q on Q Var %	201812	Y on Y Var %
Net Sales	42.56	39.63	7.39	81.30	-47.65
Total Expenditure	49.56	42.66	16.17	50.11	-1.10
PBIDT (Excl OI)	-7.00	-3.03	-131.02	31.19	-122.44
PAT	-3.86	-12.48	69.07	39.59	-109.75
PBIDTM% (Excl OI)	-16.45	-7.65	-115.03	38.36	-142.88
PBIDTM%	45.25	59.5	-23.95	51.02	-11.31
PATM%	-9.07	-31.49	71.2	48.70	-118.62
Adj. EPS(Rs)	--	--	--	10.13	-100



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