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Date: 06/08/2020
Company: Zydus Wellness Ltd.
Industry: Packaged Foods

Result Snapshot

Amt. in Rs. Crs.	Q1FY21	Q4FY20	Q-o-Q(%)	Q1FY20	Y-o-Y(%)
Revenue	537.37	487.87	10.1%	620.25	-13.4%
Other Income	1.82	1.30		3.03	
Total Income	539.19	489.17	10.2%	623.28	-13.5%
EBITDA	122.35	104.58	17.0%	148.71	-17.7%
EBIDTA (%)	22.8%	21.4%		24.0%	
EBIT	115.93	97.70	18.7%	138.36	-16.2%
Exceptional Item		-2.83		-26.70	
PBT	83.15	61.47	35.3%	79.84	4.1%
PAT	89.20	69.10	29.1%	80.40	10.9%
PAT%	16.6%	14.2%		13.0%	

Result / Con-call Highlights:

1) Result Update:

Zydus Wellness reported a topline of Rs. 537.37 cr decline of 13.4% Y-o-Y basis against Rs. 620.25 cr reported in Q1 FY20 mainly on account of supply disruptions due to the pandemic. Gross margins declined by 357 bps to 55.7% due to unfavorable revenue mix in Q1 FY21 but restricted A&P (advertising and promotion) spends limited EBITDA margin drop to 120 bps to 22.8% for the quarter ended June, 2020. EBITDA declined 17.7%Y-o-Y basis to Rs. 122.35 cr in Q1 FY21. The company reported PAT of Rs. 89.20 cr with PAT margin 16.6% in Q1 FY21.

2) Con Call Highlights:

An Adjunct to Brands

After the acquisition of Heinz India business; Zydus Wellness has 6 brands namely Sugarfree, Everyuth, Glucon D, Complan, Nutralite and Nycil. As the company is focused on wellness FMCG products which are discretionary in nature Zydus wellness tried to leverage the health and hygiene segment by launching new products in 2020. The company witnessed washout sales in April due to supply disruptions followed by gradual sales recovery in May and double digit growth in June. Nutralite brand was worst impacted as ~75% of its sales come from the institutions (Hotels and Restaurants) where as; SugarFree witnessed a robust growth due to consumers turning health cautious.

New product launches in 2020 include, SugarFree Green Re-launched in January 2020. Complan Nutrigro launched in June 2020 for the toddler health segment which caters to kids between the age 2-6 years. This product is to be sold through doctor channel only. Moreover, the company launched the base Complan brand in sachet formats to improve the penetration in rural markets. Nutralite Choco Spread launched in July 2020 is initially to be sold through e-commerce with other channels to follow which is focused on increasing in-house consumption. Glucon D ImmunoVolt launched in July 2020 in view of customers turning more heath cautious.

Result / Con-call Highlights: (Continued)

These are tasty energy bites that help boost immunity. Nycil Hand Sanitizers launched in March 2020 in sight of growing demand of hygiene products.

An array of new products launched help filled the gaps in the brands with more launches yet to come in Everyuth and SugarFree brands. The company continues to be agile in execution of new products launches which help reduced the seasonality and dependence on Glucon D brand. Q2 and Q3 are seasonally robust quarters for SugarFree and Complan brand whereas Q4 is a strong quarter for Nutralite. Spreading the portfolio would reduce the dependence on key brands to drive future growth and would reduce the seasonality effect in the financials.

Cost control measures help saved EBITDA margins

During the quarter higher SKM (Skimmed Milk) prices resulted in softening of gross margins to 55.7% in Q1 FY21. Lower gross margins were offset by lower advertising spends which help aid the EBITDA margins at 22.8% during the quarter. With falling milk prices over last 2 months we expect gross margins to improve as well as lower crude oil prices would result in lower packaging cost. The management has guided to lower the A&P cost (advertising and promotion) in view of the pandemic to help sustain margins. Moreover, the company plans to save Rs. 40 cr in warehousing, manpower and other overheads due to integration of Heinz India business. All these measures would help achieve EBITDA margins of ~22% over the next two years which were 18.2% in FY20.

3) Outlook:

Zydus Wellness is focused on wellness FMCG products and is a market leader in most of them with overall segment showing a high single digit growth. With the acquisition of Heinz India business, the company has created a huge goodwill on the books of Rs. 3900 cr which has resulted in lower ROE. The company trades at a premium valuation of 62.8x TTM earnings with a dividend yield of 0.30% due to its recent acquisition. Even though the company fared well during the pandemic with only 13% de-growth in sales on Y-o-Y basis the recovery is already priced in. We opine investors to HOLD and re-evaluate on regular intervals basis on how newly launched products perform.

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