



“Zydus Wellness Limited Q1 FY ‘19 Post Results
Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Zydus Wellness Limited Q1 FY '19 Post Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tarun Arora, COO and Whole-Time Director, Zydus Wellness Limited. Thank you and over to you, Sir.

Tarun Arora: Good Evening and Welcome to the post result teleconference of Zydus Wellness Limited for Quarter-1 Financial Year 2018-19. We have with us Dr. Sharvil Patel – Chairman; Mr. Ganesh Nayak – Director; Mr. Nitin Parekh – Group CFO; Mr. Umesh Parekh – CFO; Mr. Tushar Shroff – Senior Vice President (Corporate Finance); and Mr. Vishal Gor – Vice President (Corporate Finance) at Cadila Healthcare Limited.

The quarter gone by has seen good improvement in growth rates for all our flagship brands, that is, Sugar Free, Everyuth, and Nutralite. The new products are contributing a valuable share of sales now. As a result, the company reported consolidated income from operations of Rs. 1430.5 million representing growth of 7.1% whereas the adjusted total income from operations as referred here in below on GST comparable basis has grown by 26.2% for the quarter. The reported profit after tax stood at Rs. 257.4 million. During the quarter gone by, our key brands namely, Sugar Free, Everyuth Scrub, and Everyuth Peel Off have maintained leadership position in their respective categories.

Coming to the consolidated financial performance of Quarter-1 Financial Year 2018-19, some of the highlights are the terms adjusted income from operations, EBITDA, PBT, and PAT exclude capital subsidy income of Rs. 22.8 million. Additional excise duty credit of Rs. 94.8 million for Quarter-1 2018-19 versus previous year same quarter of Rs. 180 million. The same has been regrouped to our total income from operations. For details, please refer to the published results. The adjusted total income from operations on a GST comparable basis has increased by 26.2% year-on-year to Rs. 1313 million. During the quarter gone by, we have continued our investments on new launches and category building. Our adjusted EBITDA was up by 84% year-on-year to Rs. 103.3 million, adjusted profit before tax was up by 55.4% to Rs. 176.4 million, adjusted net profit was up by 61.7% to Rs. 152 million. With that, let me share some of the highlights of operations for the quarter gone by. We continued our thrust on marketing initiatives to grow the categories and market share of our brands during the year. To narrate a few, on Sugar Free front towards the constant endeavour to expand Sugar substitute category, we have been focusing on new products which help bring in new users. In this direction, we have launched Sugar Free Green Veda, which is an Ayurvedic range of sweeteners with 100% natural extracts of *Elachi*, *Tulsi*, and lemon to make the tabletop beverages healthy, but without the calories.

Green Veda is an extension of Sugar Free Green and will not only create excitement around the category but will also help build the Sugar Free Green franchise. On the Everyuth front during the quarter, Everyuth has continued its strong growth momentum across all segments. The newly

launched range of tan removal products was backed with a TV and digital campaign thereby establishing a new range on the ground. In Scrub and Peel off range, we continue to drive category penetration and aggressive media communication. On the Nutralite front, during the quarter we invested in the launch of Nutralite Mayo through TV advertising campaign with celebrity Chef, Sanjeev Kapoor. The TV campaign has been supported with print media and sampling in key cities. Innovative use of digital media has also played a key role to support the brand growth and spread awareness. Nutralite has made the first ever interactive recipe video with Chef, Sanjeev Kapoor, for Nutralite Mayo. We will continue to build Nutralite around its health and versatility credentials with the products launched in the last few quarters as well as the new product ideas that are in our innovation pipeline.

On the international business front, we continued our growth momentum in international markets during the quarter with the billing to the new market of Bahrain and Malaysia. We are in the process of launching Sugar Free Delight chocolates in Middle East countries. As per MAT June '18 report of Nielsen, the sugar substitute category growth rate is at 4.7%, the category has seen reduction in growth rates partially due to drop in prices post GST. Sugar Free has maintained its number one position with the market share of 93.9%. The scrub category has grown by 9.6%. Everyuth Scrub has maintained its number one position with the market share of 33.8%, which is an increase of 200 basis points over the same period last year. The Peel Off Mask category has grown by 17.7%, Everyuth Peel Off Mask has maintained its Number One position with the market share of 5.9%. We will continue to invest and innovate to meet the expectation of all our stakeholders and especially our consumers. These actions will help maintain a sustainable growth of all our brands. Thank you and we will now start the Q&A session.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Monica Joshi from Hornbill Capital. Please go ahead.

Monica Joshi: Just two of them, Mr. Arora, you touched upon increasing contribution from new products, if you could touch upon two specific ones, the *Neem Papaya* and the Mayo, because I believe now both of them would have been at least six months and the *Neem Papaya* at least a year into the market, so how is the response to your products been, that is the first? Secondly, how much of this growth in the quarter would you attribute to your new product developments?

Tarun Arora: First, getting onto *Neem Papaya* and Mayo, I think Mayo has been only five to six months because it was launched in the mid of last quarter and it is still stabilizing, but it is meeting all our milestones if I were to say, I think it will take another six months before we can say conclusively what has happened, but the way it is building up we are quite confident. We are seeing a good traction not just in our general trade, but even the E-commerce and modern trade also we are seeing some traction by the consumers. On the *Neem Papaya* scrub, we have had a kind of a good buildup on that. It has now stabilized at a certain level. We are hoping we will be able to push it to the next level and due to which we will support it with some additional investments behind *Neem Papaya* scrub in the coming quarter, so we hope that we can build it further, but at an overall level scrub is shaping up well as we have also mentioned.

- Monica Joshi:** Sir, when we say this growth rate, how much would it attribute to the new products to have, we do not need a number, we just need a ballpark understanding, do they contribute 10 % growth here or 5% of growth here?
- Tarun Arora:** We used to be 0% to 1% of sales coming from new products earlier, we are at the mid-single digits kind of number and that is the benchmark we were targeting, so in that sense we are on the ball on that as share of sales from the new products launched in last 24 months.
- Monica Joshi:** Now, in terms of advertising and promotion, we closed last year with about 90 crores of advertising spend and we have done about 40 crores in the first quarter, through questions from here, is this 40 crores run rate expected to continue or June is an abnormally high quarter, and the second is how much of this 80 crores is towards supporting your new launches?
- Tarun Arora:** Typically, you will see there may be some exceptional quarters, if you look historically also this quarter tends to be higher in terms of our advertising investments because it is a time when we have seasonal benefit for Everyuth, and therefore, higher investment go into it. Also most of our advertising is focused on new categories, new products and that is where our most attention is. They also help us build the brands forward, so they are not just new product support but they work strategically also in supporting the brand, but going forward it is not going to be at the same level, obviously this quarter takes a higher share.
- Moderator:** Thank you. The next question is from the line of Prateek Giri from Vallum Capital. Please go ahead.
- Prateek Giri:** Sir, I just wanted to know a bit about this that we always hear that we have launched a newer version of Sugar Free and few of our other brands by changing packaging and ingredients here and there, but Sir if we see the market is same I mean we are selling even the new product to the same customers again, so I just wanted to get your sense from this since we do not disclose the volume number, do you really see volumes picking up just after any new launch or any new changes here and there in the existing products?
- Tarun Arora:** Yes, all our efforts are getting new consumers and we have seen the business growth, our volume growths are based on new consumers that we are recruiting on the category.
- Prateek Giri:** Sir, can you bit of quantification you can give to us?
- Tarun Arora:** We can take that off-line.
- Prateek Giri:** Sir, second question is whenever you try to launch or when you have tried to invent a new product, so what is your market size as a target that or you want to try to address the market share lesser than this or some criteria on that, that what is the market share you try to address before you try to launch any new product?

- Tarun Arora:** Those market size and other, there are multiple factors which play into it and it varies from category to category, but we try and look at sizeable, addressable markets for all our new products, I mean it will vary from category to category, I cannot pick it up more than this on this call.
- Prateek Giri:** Second thing is in last con call you told us about 1000 crore top line in next four to five years, so Sir, any guidance on that, I mean are we on track or?
- Tarun Arora:** Yes, we believe so.
- Prateek Giri:** What are the preparations we have been doing, I mean if you look at our top line since last four years, so it has not moved that much, I mean 400 Cr. we are doing I guess four to five years back and right now we are doing 525-530, so what is the key element of the difference that we are going to embark from here on that we can double our top line in next four to five years, Sir, I mean some color on how are you going to achieve that?
- Tarun Arora:** We have reiterated in earlier calls also we have three-pronged strategy, we are focused on organic growth which is largely on innovation and brand-led growths. Second is we see international markets could add to our business, so we are looking at that, and third is, if there are right acquisitions which come through, so all put together will help us exceed historical trend of our growth rates.
- Moderator:** Thank you. The next question is from the line of Jignesh Makwana from Asian Markets Securities. Please go ahead.
- Jignesh Makwana:** Just want to know what was the underlying volume growth for this particular quarter?
- Tarun Arora:** Underlying volume growth was 16%, rest is driven by re-grouping of income and favorable product mix.
- Jignesh Makwana:** So, where exactly we took the price hike in which product actually?
- Management:** No price hike was taken
- Jignesh Makwana:** Sir, how is the response of Mayonnaise in the retail segment?
- Tarun Arora:** Too early, but right now it is on as per the milestones.
- Jignesh Makwana:** What about the export markets, so we are planning to launch Sugar Free Delight into the export market, so are we planning to launch the same products in India as well?
- Tarun Arora:** Not right now.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

- Kaustubh Pawaskar:** Sir, my question is on the gross margins, we have seen substantial improvement in the gross margin in this quarter, with raw material prices going up what your sense is on the margins and do you think that you will have to take any price increase in the coming quarters?
- Tarun Arora:** If you calculate the margin on a comparable basis, then you will come to know about the right numbers. Actually, the current basis are not comparable previous year same quarter and this quarter, so just make it comparable, normalize it and calculate the margin that is hardly any increase in the gross margins.
- Management:** We do not have any price increase plan for the immediate.
- Kaustubh Pawaskar:** Sir, this 4.7% growth in Sugar Free is it kind of a one-off and do you expect things to improve or it will take some time for growth rate to come back to double digits?
- Tarun Arora:** These are Nielsen reported numbers, there are couple of factors which play in this. One is that there has been a price reduction which was taken post MRP and this growth rate is captured through at the MRP level, so that is one of the factor that has played in this, and there are some extra volumes that we have also given as with our products, so that do not get factored in the growth, so those are things which will reduce the growth rates. We see that over a period of time growth rate should be coming back to double digit level.
- Kaustubh Pawaskar:** On your international business, Sir, in the press release you have mentioned that you are looking at tapping consumers in Malaysia and one of the other countries, Bahrain, so can you throw some light on it, what exactly your plans are in this two countries?
- Tarun Arora:** We already till March 31st, we were in 11 countries, we have added two. We work through distributors and we have a marketing plan for each of these countries. We are still very small and we are early stages, and being organic growth, it takes time to build up, more detail plan will need more detailed discussion which can be taken off-line.
- Kaustubh Pawaskar:** But are we looking to add all products in what we have in India into these markets or gradually you are planning to introduce products into these markets?
- Tarun Arora:** Most countries, we start off with Sugar Free and looking at the possibilities, we add more products which could include Nutralite in few countries, we have added Everyuth wherever we see a valuable opportunity.
- Kaustubh Pawaskar:** Sir, in Everyuth scrub category what could be the growth rate from the category perspective?
- Tarun Arora:** We talked about Everyuth, the scrub category has grown by about 10% is what I mentioned in the, but we have gained share by 200 basis points.
- Kaustubh Pawaskar:** Sir, at the retail level, how the Nutralite is doing because the presence is improving, so are we seeing improvement in growth at the retail level for Nutralite?

- Tarun Arora:** Yes, we have been able to expand our presence and that is helping us at an overall level.
- Moderator:** Thank you. The next question is from the line of Ankit Kanodia from Synconic Solutions. Please go ahead.
- Ankit Kanodia:** In your latest annual report, there is an interesting data which I came across is that nine years CAGR of your company revenue has been only 11%, so I understand that you do not wish to give any forward-looking guidance, what is your comment direction wise on the same as in do you wish to change this figure going forward because your company in the same period has made a lot of shareholders wealth, so just curious to know what is your vision going forward?
- Tarun Arora:** We are looking at good double-digit growth going forward and that is something we have said earlier as well, and we believe that is going to happen.
- Moderator:** Thank you. The next question is from the line of Prateek Giri from Vallum Capital. Please go ahead.
- Prateek Giri:** Sir, I wanted some idea on new product side, so I heard to know that we have some products pipeline, so I just wanted to know that how can we can be the first mover, I mean we can take the first mover advantage?
- Tarun Arora:** Most products that we launch tend to be a first mover advantage like what we have recently launched Sugar Free Green Veda, so most products tend to be first mover advantage and quantify on a total basis.
- Prateek Giri:** What about the existing pipeline, in that existing pipeline, how many of them, all of them we are going to be the first mover, Sir?
- Tarun Arora:** Not for all, but like I mentioned most.
- Prateek Giri:** Sir, secondly I wanted to know more about this exports, so are we targeting any particular number that this much of our top line should come as exports growing in three to four years?
- Tarun Arora:** So we do not have any specific guidance on this, but we are building still and we believe it could support growth.
- Prateek Giri:** It will be a significant number going forward of our top line, Sir?
- Tarun Arora:** Yes, that is what our intention is.
- Prateek Giri:** Sir, can you give me an R&D cost as a percent I was unable to find it in the annual report?
- Tarun Arora:** We will give it you off-line, we do not have it right now.
- Moderator:** Thank you. The next question is from the line of Yasmin Shah from Antique. Please go ahead.

- Yasmin Shah:** Sir, I just had couple of questions, I wanted to understand in terms of your distribution for your Sugar Free in India, what is your strength and how do you see that going ahead and how many cities or top cities have you covered and what is the plan there?
- Tarun Arora:** We are available in about 4.3, 4.4 lakh outlets and across the country.
- Yasmin Shah:** How do you see that going ahead?
- Tarun Arora:** We see a constant growth in this numbers.
- Yasmin Shah:** If I have to ask you like in terms of your mix, is it same across geographies or there are certain geographies which are growing faster and somewhere you think you can...?
- Tarun Arora:** We have a very similar thing across all geographies.
- Yasmin Shah:** Sir, my second question pertains to this Mayonnaise what you have launched, what has been the thought process like in terms of launching a product like Mayonnaise and do you see yourself getting into maybe more of such products be it salad dressing or I do not, I am just trying something like that?
- Tarun Arora:** The details of why we have launched I think will need a more detailed discussion, but yes, we have a plan for similar launches.
- Moderator:** Thank you. The next question is from the line of Sundar S. from Spark Capital. Please go ahead.
- Sundar S.:** Sir, my first one pertains to Sugar Free Green Veda, now Sugar Free Green per se how much is it overall contribute to our revenues if you would like to share that number and largely what has been the targets that we have set for Sugar Free Green and Veda percent, how much are we in terms of achieving those?
- Tarun Arora:** Sugar Free Green contributes, has a market share of about 2% plus now the category.
- Sundar S.:** What were the internal targets that we have set for ourselves as far as Sugar Free Green is concerned?
- Tarun Arora:** We believe it will help us grow faster and we are working on those numbers, I think that is what we can share at this time.
- Sundar S.:** This quarter secondary sales of Sugar Free is about 4.5%, right, now should we expect this to have a bullwhip effect in terms of our primary sales in the next two quarters?
- Tarun Arora:** These are not secondary numbers, these are tertiary optics reported by Nielsen and these are at MRP terms, we had a 4% plus reduction in MRP in November, therefore, that reflects as a part of this reduction in growth rate, volume wise it will be better plus we have also given some freebies for trial which is also reflected in some reduction in the volume, but overall we see a

much better pick up over next few quarters on Sugar Free, and these are optics and they do not necessarily reflect our internal growth numbers, but they are more directional in nature.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: Two follow, Sir, one on the margin front in FY 2018 we have achieved about 25% margin, so going ahead should we expect margin to sustain at these levels or because of higher advertisements spends or continuous higher advertisement spend, we might see some deceleration in margins? Second is what would be your tax rate for FY 2019?

Tarun Arora: From the margin point of view with our steady business that we are certainly going to hope to maintain margins. If we have some important big launches there would be some reduction in margin, and on a steady state basis, our core business will continue to see similar margins and on the tax rate...

Umesh Parikh: On the tax front, the effective rate would be around 9.5% to 10%, it varies.

Moderator: Thank you. The next question is from the line of Anirudh Jain from HU. Please go ahead.

Anirudh Jain: Sir, I have couple of questions, can you just give some light on the competition from the foreign players like PureCircle or any other Indian entity, we should see so?

Tarun Arora: Foreign players like PureCircle are not competitors, they are actually partners, they are more of a supplier and vendors who provide technology and inputs for these materials, so we partner with some of them.

Anirudh Jain: We have officially entered into an agreement with the PureCircle?

Tarun Arora: Not officially agreement, we partner on the material side.

Anirudh Jain: The second question is how we are going to utilize the surplus cash that we have, any plan on that?

Tarun Arora: For acquisition.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Tarun Arora for closing comments.

Tarun Arora: Thank you everyone for your questions and support, thank you. We will meet next quarter.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Zydus Wellness Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.