

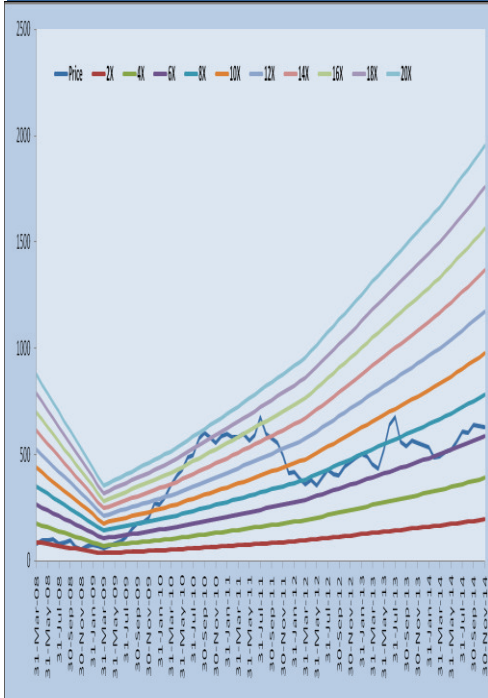
Result Update	Buy
CMP	643
Target Price	700
Previous Target Price	735
Upside	9%
Change from Previous	-5%

Market Data	
BSE Code	531335
NSE Symbol	ZYDUS
52wk Range H/L	711/435
Mkt Capital (Rs Cr)	2512
Average Daily Volume	13282
Nifty	8358

Stock Performance	1M	1yr	YTD
Absolute	1.8%	15.6%	18.0%
Rel.to Nifty	-5%	-23%	-14.7%

Share Holding Pattern-%	Current	1QFY15	4QFY14
Promoters	72.54	72.54	72.54
FII	8.59	7.99	7.86
DII	6.62	6.64	7.87
Others	12.25	12.83	11.73

## P/BV(x)-1year forward



### *Marginally better performance, expects promising growth ahead.*

Zydu Wellness reported a much better performance in comparison with previous quarters; Revenue grew by 6% as against the revenue decline of 6% in 1QFY15 and 3% in 4QFY14. This revenue growth is consolidated with double-digit growth in the Sugarfree brand. Nutralite brand grew in low single digit, while Everyuth continues to underperform for the company.

The Company's half of revenue come from Sugar Free and Ever yuth. The company is introducing new variants and supporting brands with higher advertisement and promotional activities with new distribution system. At a same time, urban consumer discretionary demand is taking place. We expect the company will take another 2 quarters to garner full benefits into revenue growth.

**Margin stable on cost rationalization:** Its EBITDA Margin declined by 110bps (YoY) to 25% due to higher employee cost. The PAT growth stood at 8%, mainly on account of higher other income and lower incidence of tax. We expect that the gross margins would improve on back of the improvement in sales mix. The EBITDA Margin would sustain in the range of 22-23% in the coming years.

**Working on cost rationalization:** Considering slower demand and high competitive intensity, the company has not been able to manage its normal range of margin by reducing RM cost. During the quarter, RM cost on sales increased from 24.6 %(1QFY14) to 30.9%. While, Ad spend was up from 17.1% (1QFY14) to 17.5%.

**Strong brand value in sugar free products:** With 92% market Share, Sugar Free product is always on the top of the buyers' mind when it comes to the sugar substitute. Considering the entry of other players in same product, it has rolled out an aggressive ad campaign and expended this brand on different segments like, Sugar Free Gold (Aspartame based), Sugar Free Natrura (Sucralose based), Sugar Free Herbvia (Stevia) and Sugar Free D'lite (Drink).

**Aggressive target on capturing Everyuth market share:** Recently, company re launched its Everyuth brand with innovative packaging, strong distribution network and expensive media initiatives. The company extended its everyuth brand to the premium soap in 3 variants, like Fruit bathing bar, Neem bathing bar and Lemon in small Sachets.

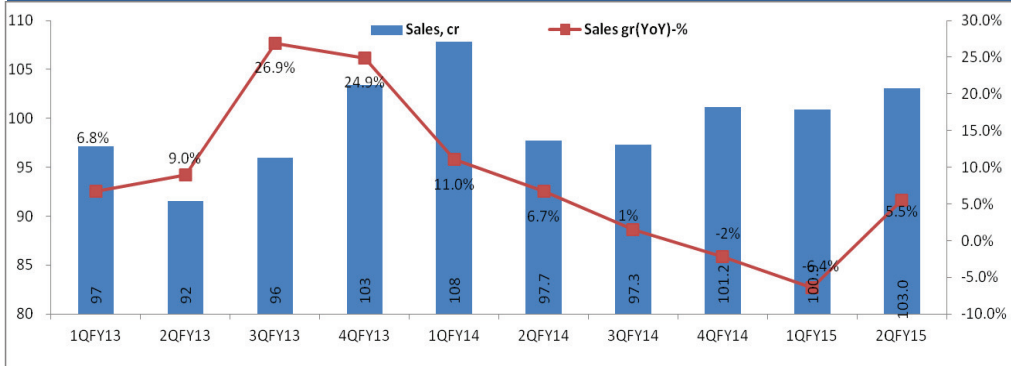
**View and Valuation:** Taking into consideration of product re-launch, strong distribution reach under a beneficiary scenario of margin, management is very confident to achieve revenue at 500cr in FY16E, we expect double digit figure of revenue growth for FY16E. Its larger market share and aggressive promotions in its pillar brand (Sugar Free, Everyuth) would energize its revenue growth in near future. We retain "Buy" on the stock at a target price of Rs 700. At a CMP of Rs 643, stock trades at 6.1x/5.1x of FY15E/FY16E P/BV.

Financials	Rs, Crore				
	2QFY15	1QFY15	(QoQ)-%	2QFY14	(YoY)-%
Revenue	103.03	100.9	2.1	97.7	5.5
EBITDA	25.8	17.15	50.4	25.51	1.1
PAT	27.3	17.6	55.1	25.7	6.2
EBITDA Margin	25.0%	17.0%	(800bps)	26.1%	(110bps)
PAT Margin	26.5%	17.4%	(910bps)	26.3%	20bps

(Source: Company/Eastwind)

# Zydus Wellness.

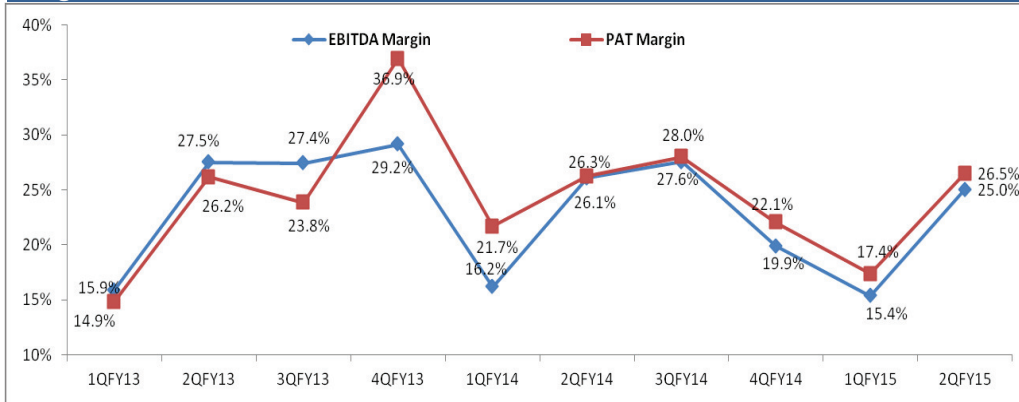
## Sales and its Growth(%)



(Source: Company/Eastwind)

Sales up by 5.5%(YoY).

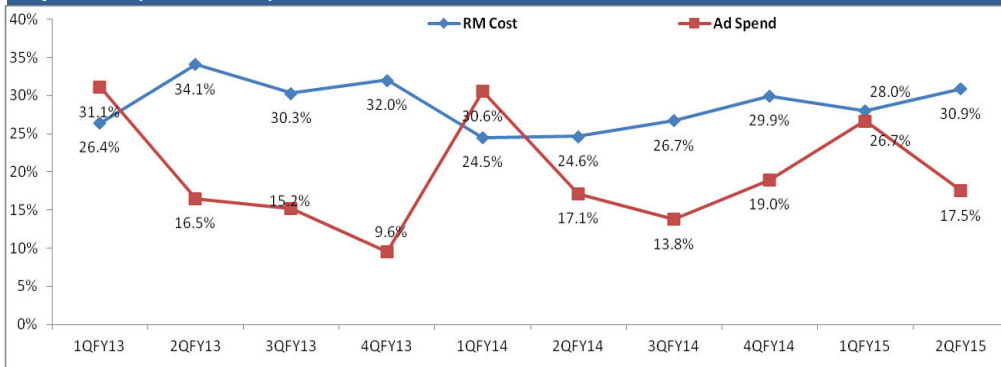
## Margin-%



(Source: Company/Eastwind)

It expects expansion in gross margin, which will help it to fund new product launches.

## Expenses-(% of Sales)



(Source: Company/Eastwind)

**Focus on expansion of Distribution network:** The Company has been increasing its distribution network to improve its growth of its cash-cow brand. A nationwide network expansion is expected by 3QFY15E. Everyth scrub and peel-off are sold through 3.3 to 4.0 lakh retail outlets while Zydus Wellness is sold through 3.4 lakh retail outlets (an increase of 11% YoY). The company targets to increase the distribution reach by 15-20% per annum.

We believe these efforts will take another 2 to 3 quarters to translate into any substantial improvement in the sales, as a large part of the company's portfolio consists of products from the premium and niche categories.

# Zydus Wellness.

## Key facts from Management Interview

With its thrust on improving the sales volume in the coming quarter, the management has indicated it would spend adequately on advertisement and promotional activities.

The management would continue to focus on improving the growth prospects of Sugarfree and Everyuth brand.

The company has decided to go slow with the Actilife brand and is planning to re-define the strategy for the brand.

Ad- spend to remain in the range of 18-19%

## Financials and Valuation

Rs in Cr,	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Total Sales	267.5	335.5	344.6	410.0	429.6	451.1	496.2
Less: Excise Duty	0.0	0.1	9.2	22.9	26.9	28.19	31.01
Net Sales	267.5	335.4	335.5	387.1	402.7	422.9	465.2
Other Operating Income	0.6	1.0	1.3	0.9	0.9	1.4	2.0
Total income from operations	268.1	336.4	336.8	388.0	403.6	424.2	467.2
RM Cost	37.5	49.9	94.1	119.1	106.8	120.9	130.8
Purchases of stock-in-trade	54.0	74.9	23.7	14.7	5.3	4.24	7.01
WIP	(5)	(5)	4	(10)	12	(2)	(5)
Employee Cost	9.3	18.3	20.6	27.3	30.6	36.06	39.71
Ad Spend	61.0	59.2	59.7	69.8	82.3	78.5	86.4
Other expenses	44.4	54.5	57.4	70.1	77.3	80.61	86.42
Total expenses	201.0	252.1	259.7	291.4	314.1	318.18	345.70
EBITDA	67.1	84.2	77.1	96.6	89.6	106.06	121.46
Depreciation and Amortisation	1.6	1.5	3.9	4.5	4.7	7.3	7.1
Other Income	6.0	7.2	9.0	15.8	18.9	23.3	28.0
EBIT	71.4	90.0	82.2	107.9	103.8	122.13	142.39
Interest	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Exceptional Item	-2.2	0.0	0.0	0.0	0.0	0.00	0.00
PBT	69.2	90.0	82.2	107.8	103.7	122.1	142.4
Tax Exp	24.0	30.5	13.7	8.8	5.4	11.0	12.1
PAT	45.2	59.5	68.6	98.9	98.3	111.14	130.29
<b>Growth-% (YoY)</b>							
Sales	37.5%	25.5%	0.1%	15.2%	4.0%	5.1%	10.1%
EBITDA	73.1%	25.6%	-8.5%	25.3%	-7.2%	18.4%	14.5%
PAT	82.1%	31.7%	15.3%	44.2%	-0.7%	13.1%	17.2%
<b>Expenses on Sales-%</b>							
RM Cost	14.0%	14.8%	28.0%	30.7%	26.5%	28.5%	28.0%
Ad Spend	22.7%	17.6%	17.7%	18.0%	20.4%	18.5%	18.5%
Employee Cost	3.5%	5.4%	6.1%	7.0%	7.6%	8.5%	8.5%
Other expenses	16.6%	16.2%	17.0%	18.1%	19.1%	19.0%	18.5%
Tax rate	34.7%	33.9%	16.6%	8.2%	5.2%	9.0%	8.5%
<b>Margin-%</b>							
EBITDA	25.0%	25.0%	22.9%	24.9%	22.2%	25.0%	26.0%
EBIT	26.6%	26.7%	24.4%	27.8%	25.7%	28.8%	30.5%
PAT	16.9%	17.7%	20.4%	25.5%	24.3%	26.2%	27.9%
<b>Valuation:</b>							
CMP	381.7	597.3	380.4	456.5	497.5	643.0	643.0
No of Share	3.9	3.9	3.9	3.9	3.9	3.9	3.9
NW	100.6	141.9	186.9	256.5	325.6	409.3	507.5
EPS	11.6	15.2	17.5	25.3	25.1	28.4	33.3
BVPS	25.7	36.3	47.8	65.6	83.3	104.7	129.8
RoE-%	44.9%	41.9%	36.7%	38.6%	30.2%	27.2%	25.7%
P/BV	14.8	16.5	8.0	7.0	6.0	6.1	5.0
P/E	33.0	39.3	21.7	18.0	19.8	22.6	19.3

(Source: Company/Eastwind)