February 13, 2024

Listing Department **Code: *531 335***
BSE LIMITED
P. J. Towers, Dalal Street,
Mumbai–400 001

Listing Department **Code: *ZYDUSWELL***
NATIONAL STOCK EXCHANGE OF INDIA LIMITED
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex,
Bandra (E),
Mumbai–400 051

Re: **Transcript of the Earnings Conference call held on February 8, 2024**

Dear Sir / Madam,

Pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached Transcript of the Company's Q3 FY2024 Earnings Conference call held at 5:00 p.m. (IST) on Thursday, February 8, 2024.

Please find the same in order.

Thanking you,

Yours faithfully,
For, **ZYDUS WELLNESS LIMITED**

NANDISH PRADIP JOSHI
Digitally signed by NANDISH PRADIP JOSHI
Date: 2024.02.13 17:12:43 +05'30'

NANDISH P. JOSHI
COMPANY SECRETARY

Encl.: As above

“Zydus Wellness Limited Q3 and 9 months FY '24 Earnings Conference Call”

February 08, 2024

MANAGEMENT:	**DR. SHARVIL PATEL – CHAIRMAN, ZYDUS WELLNESS LIMITED** **MR. TARUN ARORA - CEO, ZYDUS WELLNESS LIMITED** **MR. GANESH NAYAK - DIRECTOR, ZYDUS WELLNESS LIMITED** **MR. UMESH PARIKH – CFO, ZYDUS WELLNESS LIMITED**
MODERATOR:	**MR. KARAN BHUWANIA – ICICI SECURITIES**

Moderator: Ladies and gentlemen good day and welcome to Q3 and 9 months FY '24 Earnings Conference Call of Zydus Wellness Limited hosted by ICICI Securities.

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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Bhuwania from ICICI Securities. Thank you and over to you.

Karan Bhuwania: Thank you. Good evening everyone and welcome again to the Q3 FY '24 Results Conference Call of Zydus Wellness.

From the management, we have Dr. Sharvil Patel – Chairman, Mr. Tarun Arora – CEO, Mr. Ganesh Nayak – Director, and Mr. Umesh Parikh – CFO

I will now hand over the call to Mr. Tarun Arora for his "Opening Remarks". Post which we can open for the Q&A session. Thank you. Over to you, sir.

Tarun Arora: Good afternoon and welcome to the post-results teleconference of Zydus Wellness Limited for Quarter 3 Financial year 2023-24.

Like Karan said, we have with us Dr. Sharvil Patel – Chairman, Mr. Ganesh Nayak – Director and Mr. Umesh Parikh – CFO.

It is always a pleasure to interact with all of you. Wishing everyone a great 2024.

During the quarter gone by, the FMCG sector continued to witness demand pressure on a sequential basis similar to last quarter. As expected, buoyancy in rural demand continues to lag. The same was further accentuated by macroeconomic factors like low agricultural yields impacting rural demand, delayed winters and late festive season.

However, some of the consumption segments continued to beat the trend. The personal care segment witnessed yet another double-digit growth for the quarter with Everyuth portfolio continue to gain good traction, which is further aided by Nycil.

The food and nutrition segment continues to face some brand specific headwinds plus demand pressure impacting overall portfolio growth. Similar to last quarter, Nutralite brand continued to witness good volume demand but had negative value growth due to market-driven prices.

The Sweetener's portfolio growth was also impacted due to very low sales of Sugar Lite as the Honorable Supreme Court allowed to clear the existing inventory towards the end of Quarter 3 and let the litigation continue at the trial court.

The company registered consolidated net sales degrowth of 3.1% on a year-on-year basis. The consolidated gross margin on net sales is on an upward trajectory, showing an improvement of 279 basis points on a sequential basis and 418 basis points on a year-on-year basis.

Let me take you through some other highlights of the consolidated financial performance of Q3, financial year 2023-24. Our net sales degrew by 3.1% to Rs. 4,001 million. The company reinvested some of the gross margin gain into brand building. As a result, advertisement expenses grew by 11.8% year-on-year. Other expenses grew by 17% year-on-year. Cost of strategy consultant and increase in minimum wages at Ahmedabad and Aligarh facility drove up the other expenses. EBITDA decreased by 51.1% year-on-year to Rs. 127 million. The company reported profit after tax of Rs. 3 million, which includes Rs. 34 million of deferred tax liability, a non-cash item.

With that, let me share some of the highlights of operations for the quarter, which will also cover category growth and market share numbers as per the MAT December '23 report of Nielsen and IQVIA. Zydus Wellness portfolio brands were available in 2.9 million outlets as per the revised reporting on Nielsen for MAT December 2023. Therefore, we are readjusting our plan for availability to 3.5 million outlets over the next three years.

We continued our trust on marketing initiatives to grow the categories and increase our market share of our brands during the quarter. On Glucon-D front, the glucose powder category has grown by 4.4% at MAT level. Glucon-D brand has grown faster than the category and registered strong growth for the quarter, where brand has maintained its number one position with a market share of 60.0%.

On the Complan front, the brand has registered ahead of category volume off-take growth. With continuous efforts and intervention for demand generation, Complan has witnessed 16% growth in penetration at MAT level. The health food drink category has registered a growth of 5.8% at MAT level. Complan market share stood at 4.3%.

On the Sweetener's front, we continue to push consumption of Sugar Free Green with our media campaign with celebrity Katrina Kaif which was further amplified with digital campaign during the 2023 Cricket World Cup. The brand maintained its market leadership with market share of 96%.

On the Personal Care front, Everyuth brand registered yet another quarter of strong growth. The face scrub category has registered a growth of 7.6% at MAT level. Everyuth scrub continued to maintain its leadership position with a market share of 44.4%, which is an increase of 263 basis points over the same period last year.

The peel-off category has registered a growth of 4% at MAT level. Everyuth peel-off has maintained its number one position with a market share of 79.5%, which is an increase of 113 basis points over the same period last year.

The Prickly heat powder category has grown by 2% in 2023 MAT December. Nycil brand has grown faster than the category and maintained its number one position with a market share of 35.1%.

As we speak, we have finished our season's preparedness and have started replenishment of fresh inventory across trade channels. Our demand generation and brand-building efforts will continue which will drive the growth of the company. The company's journey towards innovation will propel the growth further.

Thank you and we will now start the Q&A session. Over to the coordinator for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Sanket from Ambit. Mr. Sanket? Since there is no response, we will move on to the next question from the line of Kinjal Mota from Banyan Tree Advisors. Please go ahead.

Kinjal Mota: So, my question was related to the deferred tax adjustment, which was mentioned during this quarter. Could you please give some details on what it is? And the second thing is, why is the nine-month FY '24 tax rate negative? These are the two questions if you could help around.

Umesh Parikh: So, this is because on conservative basis, we created a deferred tax asset in the earlier quarters and because there are, in the standalone entity of ZWL, there are profits, and we have to reverse this as a deferred tax liability and therefore you see it as a line item in the P&L.

Umesh Parikh: It is a non-cash item.

Kinjal Mota: And second question is, what is the MAT credit entitlement, so the amount is adjusted for 188 million, which is mentioned in the note?

Umesh Parikh: Yes, so MAT entitlement was mentioned even in the last year's balance sheet as well. So, you know, because we are in the zone, in the Sikkim where we have this availability.

Kinjal Mota: And what is the tax rate that we could expect for this FY '24?

Umesh Parikh: So, FY '24 and FY '25 will be in the nil tax rate and thereafter we will be paying the normal tax.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, I wanted to understand, when I look even on a Y-on-Y basis, our sales have declined, but we have gained share in a lot of our products where we are already market leader, we have gained additional share. So, if you could just help me understand why is that the FMCG market is growing but it's not moving into our sales growth?

Tarun Arora: So, I think, if you look at FMCG market, I think overall there has been a challenge. While for the last quarter, Nielsen has reported a 6%, but most of the categories are struggling to get growth. For us also, if you de-average the whole business, Personal Care is showing a fairly good growth, and which is what we have also reported It's the other food and nutrition which has not grown. So, I think the impact is category by category. Overall, there is pressure on demand and the categories are a bit of stress. Fortunately, because of our actions, we are in a good competitive situation. Our market shares are going up despite the market pressures or category pressures and we believe as we move forward, as the demand improves, I think the category growths will be back and we should expect improvement in overall growth and specific to those categories where we have had brand-led pressures.

Madhur Rathi: Sir, when can we see, so you said that demand, but is there a timeline in your mind as well as some kind of quantity, like number if you can say that we can grow at for FY '25 as well as FY '26?

Tarun Arora: So, if you look at it, I think we had even in the last call also mentioned that quarter four onwards, we should see the growth. So, even in the last call, we had said that we expect growths to be coming back from quarter four and that's what I think it's looking like, that demand is improving though early days and it's only green shoots. But we expect growths to be coming back to normal starting quarter four and our wish list is or our expectation is that FY '25 should be back to normal double-digit growths that we worked for.

Madhur Rathi: Sir, so there is some kind of growth that we see in Glucon-D for this Q4 as well as Q1, earlier year, which was not very well for us?

Sharvil Patel: So, the earlier year, as you said, was subdued, but we still have to wait until March and April to understand how the season is going, but the start is good.

Moderator: Thank you. The next question is from the line of Karan Bhuwania from ICICI Securities. Please go ahead.

Karan Bhuwania: Sir, firstly on Sugar Free that you have mentioned in your PPT also that despite the headwinds, there has not been good optics in terms of volumes, right? So, if you could elaborate more on that as to how has the demand been of the Sugar Free products, especially the products that are based on Aspartame?

Tarun Arora: So, let me give you an overall sweetness portfolio and how our business has been. I think we have had two things that have affected overall Sugar Free business. One has been SugarLite not being there for a major part of the business and Aspartame has had a muted run post WHO. Most of the growths are being driven and we have seen now several, 11, 12 quarters of consistent growth of Sugar Free Green, which is a stevia-based product which is covering up for it. We are seeing good off-take momentum coming from Nielsen and which we hope will help us recruit more consumers as we move forward. A lot of concerns over what is affected seem to be reducing and we hope to be able to convert into better improved penetration over the next coming quarters.

Karan Bhuwania: Sir, if you could just highlight what was the contribution of SugarLite which was not there in this quarter, so that would be helpful to understand the growth better.

Tarun Arora: So, Sugar Lite at an overall level, annual level has about 1.5, 2%. Of course, in the smaller quarters, it gets more ex-inflated.

Karan Bhuwania: Secondly, sir, on Complan, are you seeing any increased competitive intensity versus previous two quarters? Is there any change in terms of competitive intensity, in terms of pricing or say, distribution that you are seeing right now?

Tarun Arora: Not really. It is the usual. It is a very competitive category, and it continues to remain so. So, the good part is that we have been able to take some price increases and with the milk getting stabilizing, we expect it to be in a better shape, both ways.

Moderator: Thank you. We have our next question from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Sir, my question is on what was the volume growth for Q3?

Sharvil Patel: Volume growth for the quarter is in line with the total of the growth.

Tarun Arora: So, it is almost the same parity of minus 3.

Priyank Chheda: My next question is on, how do we look into the growth of negative 5% for food and nutrition segment? It comprises a portfolio which is very different and very unique to each other. If you can help us, I might have missed on the category growth numbers that you spoke. But if you can also help us dissect negative 5% growth, say in Complan or Nutralite or Sugar Free or Glucon-D, how has been the growth in each of the brands, would give us a light which are the brands which have been doing well and where the action is required.

Tarun Arora: So, like I explained in my initial conversation, I think one part of it is Nutralite where there is a because pricing has to be adjusted basis of the input prices. And therefore, we have had a reverse mix where the prices have to be brought down. The volume growth is higher than the value growth. There have been also impact on the value for sweeteners like I just explained in the last thing. Otherwise, overall these are two major factors if I were to look at and a bit of impact on Sugar Free led by Aspartame.

Priyank Chheda: So, that's Nutralite and Sugar Free. What would have been the growth for Complan in the current quarter?

Tarun Arora: Sorry?

Priyank Chheda: So, Complan remains one of the largest brand within food and nutrition, right? What would have been the growth for that?

Tarun Arora: Complan is not the largest brand. Glucon-D is the largest brand for our annually. We don't give quarter-to-quarter breakup of numbers but annually Glucon-D is the largest brand.

Priyank Chheda: So, what would have been the growth for Glucon-D? Would have been in line with the segment decline?

Tarun Arora: So, YTD, Glucon-D like I explained has been due to seasonality has been under pressure, though last quarter, of course, on a much smaller base it has been more positive. But YTD has been under pressure because the season got impacted and we have explained in quarter one how due to season it got impacted.

Sharvil Patel: So, I think for the quarter if you look at it, obviously, Glucon-D doesn't have the large part of the realization and Complan is. Complan is, I think we still need some time to see how Complan moves forward in its growth trajectory, but we are seeing some improvement. So, we are hoping that in this coming year with measured investments and not over-the-top investments we see a better performance on Complan. But other than Complan, I think our strategy for 2024 is quite aligned.

Priyank Chheda: I am sure, if you can help me. So, as our portfolio is kind of a seasonal as well as wide, it would be great if you can focus more on each of the brand and their categories where in if you can stress up more, what are the kind of strategic pillars and the steps that we are taking to revive the Complan, that would be great.

Tarun Arora: So, I think for Complan, I don't think in terms of our overall 2024 plan, Complan we were still required to continue to build on the current strength that it has, which is better protein, superior protein and the aspects of how it helps in growth and height and other benefits. So, I think that proposition will continue with the improvement in gross margins and others we will see that trickle down in terms of better profitability on Complan. So, Complan, I think, currently, it is to manage with the current base of business that we have and grow it in that line with measured investment. The growth and the growth for the overall business will be driven by obviously the other brands and the skin care brands, which are doing extremely well.

Priyank Chheda: How should we look into the gross margin for the full year? On the YTD basis, we are up by 100 basis point. Would we end our FY '24 in a similar way or should there be impact of June quarter, sorry, impact of the March quarter where base is very low, so there can be a further expansion into the gross margin for the full year?

Tarun Arora: On the full-year basis, we are expecting further improvement in the gross margin and good improvement in the gross margin with the commodity prices and milk prices stabilizing. So, we are yet to see further gain in the gross margin.

Sharvil Patel: So, Quarter 4, you will see a higher gross margin than Quarter 3.

Priyank Chheda: And on the distribution front, if you can help us, what are our plans to accelerate the distribution into the categories which have a very low penetration? Plus we were tracking our data on the household gains for our Complan brand. If you can help us update on that?

Tarun Arora: So, first of all, in distribution, Nielsen has revised numbers for availability across our brand portfolio. They have now stated, restated our availability at 29 lakhs, 2.9 million for 2023, which was earlier stated at 25 lakhs. Over the next three years, we are looking at how do we reach 3.5 million outlets from a GT point of view. We continue to drive our gains in both non-trade and in e-commerce and our clearly distribution focuses to make our products more widely available, not just in quantity numbers, but also a wider range across the outlets that we cover. Over next three years, we are looking at adding at least 50,000 to 1 lakh more outlets in a direct distribution drive that is planned end of the season, which is post the summer season.

Third part on the Complan expansion of our households, I think we continue to see double digit. In fact, in my initial speech also, I mentioned we have seen a 16% increase in household penetration for Complan. So, largely, Complan is growing on the basis of volume and increased penetration, which is aided by our packed price architecture, which is making it more accessible price points without compromising on margins.

Priyank Chheda: Sorry, if I can squeeze in further one question. So, if there is a 16% expansion into the households penetration for Complan, would it be very suffice to say that even the brand would have grown at, say, at least 10% for the YTD number?

Tarun Arora: Not really, not really. But we have seen some improvement in volume market shares like we mentioned, but not really. I think some of these data come from different sources. They look from a trend point of view in the right direction, but they don't exactly match. If you need more, but the second point is that it will also add on to our future growth for the brand, which is what this feeds into. So, it's more of a early measure, early indicator of what we could build Complan with.

Priyank Chheda: So, how should we look into, if there is a household expansion that is happening?

Tarun Arora: I have a small suggestion. If you have more questions, please reach out to our Investor Relations. We will be happy to do a more detailed call to help you with this.

Moderator: Thank you. We have our next question from the line of Tejas Shah from Avendus Spark. Please go ahead.

Tejas Shah: So, how would you explain the divergent trend that we have seen in food and nutrition versus personal care?

Tarun Arora: So, like I explained earlier also, I think the personal care shows that both the brands are in good shape and they are driving and there has been a consistency. Food and nutrition is a diverse portfolio. We have had a mixed bag. Clearly, brands like Nutralite, like I mentioned, continue to be on a volume track and delivering growth and profitability. There have been some challenges in sweeteners and nutrition portfolio, which are sizeable, and therefore, they have impacted. But we believe, clearly, sweeteners portfolio we should be able to address with our actions. In very short term, nutrition portfolio should turn around but may take a longer to get to a full momentum as we see. So, it is a quarter which has got impacted from our overall view.

Tejas Shah: Sir, the second question is from many quarters you have been calling out that Sugar Free Green has been doing very well almost since last 11 quarters, as you have mentioned and where other variants had very undesigned headwinds also aspect in as you called out. Despite that Sugar Free has just reached overall business 7% contribution. So, just wanted to know, so that growth is also not materially higher than the overall portfolio growth, is it?

Tarun Arora: So, Sugar Free Green is 7% of the Sugar Free portfolio. That's what we have called out and it has actually moved substantially from almost 2% about 3, 4 years back and we believe it is growing at a pace where it will disproportionately impact the overall growth of Sugar Free. So, I think it's moving in the right direction and we do believe it will help us keep driving the penetration of Sugar Free, which got impacted over last 2, 3 quarters after the WHO. Earlier also, there have been ups and downs with the Sugar Free, but this should help us overcome this substantially.

Sharvil Patel: But I think to your point, one thing is important to understand that Sugar Free Green is at a higher price point than the other SKUs. So, I think, as I said, it's a strategy that combines all the three brands and we cannot just only build on Sugar Free Green, but in the long term, 3 to 5 years, Sugar Free Green will see significant traction in terms of higher market share in the overall sugar-free space. But both the other two brands also in both in the culinary and in tea and table top also have to have the right mix. So, I think that's what the team is working on to make sure that the healthy mix remains obviously strongly aided by the growth of Sugar Free Green but with equal opportunity on Sugar Free Natura also and maintaining the base with Sugar Free Gold with the headwinds that we have faced, we have tweaked some things for the brand and in the coming quarters, we would see a positive impact for that.

Tejas Shah: Very clear sir. And last one, sir, when you look at CY '24, FY '25, what are the top 3 things or initiatives you are excited about and what are the top 2, 3 things that you are actually keeping your fingers crossed for?

Sharvil Patel: Fingers crossed for is very clear. It's Complan and Sugar Free we need to see how it trends forward. We hope for a good summer. Even a normal summer will be better than the summer last year. So, that should have a positive momentum and beyond that I think Tarun can talk about the major initiatives.

Tarun Arora: So, we have at least 3 to 4 reasonably large launches that we have planned in this year which is not just for this year but over the next 2 to 3 years that we will have, plus within these 2 brands, we have some couple of initiatives which should help us drive. Like I also mentioned, there is a distribution expansion drive. So, we have got our hands full in terms of how we are looking at it. We are putting some pilots in place to extend ourselves into some new needs spaces also. So, our activity calendar is reasonably full, and we still remain bullish on what we can do despite the challenges we face, especially in last couple of quarters.

Moderator: Thank you. We have our next question from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Just wanted to understand on your initial comment of seeing a good improvement in Quarter 4, so is it because that there will be lot of uptick prior to the summer season? Is it because of that or overall, you are seeing some material changes in the demand environment?

Sharvil Patel: Sorry, good improvement in?

Kaustubh Pawaskar: Good improvement in performance in Q4?

Tarun Arora: So, I think there are two parts to it, of certain season build-up which happen across portfolio which happens where the wholesale and the distributor start building up in January, February or February, March because the season is coming, which is part of the portfolio and which will happen, which anyway looks good. But we are also seeing some green shoots of demand and we are expecting some of our initiatives playing out which we have put in place. So, put together, we believe that Quarter 4 should help us take it to the next level from where we have seen Quarter 2, Quarter 3 demand for portfolio.

Sharvil Patel: So, I think, as Tarun said, it's a summer skewed portfolio at least and Quarter 4 is loading. So, it happens every year. So, assuming that this is a normal summer, we would see better traction.

Kaustubh Pawaskar: And Q1 should also be good considering the fact that last year Q1 was affected by unseasonal rains and all. So, I think even Q1 should also be good for us considering the base.

Sharvil Patel: If we have a better summer Q1 will be the main growth driver.

Moderator: Thank you. We have our next question from the line of Ajay Thakur from Anand Rathi. Please go ahead.

Ajay Thakur: So, wanted to check on two, three things. One was on Sugar Free. So, just about the SugarLite, can it be kind of, you know, just a one-quarter kind of a phenomenon or we can expect that SugarLite will be kind of hitting the markets sometime soon? And how are we looking at filling that gap in terms of SugarLite?

Tarun Arora: So, I think we have started at it. I think from March starting, we should be back with a normal momentum on this Sugar Lite or equivalent space. And we will in the next quarter be sharing a more detailed strategy where we believe because of this innovation and capability, we should be back to normal business in the following quarter.

Ajay Thakur: And, sir, I wanted to get more sense on the international business. So, you know, what would be our run rate right now for nine months in terms of international business as a percentage of overall sales? And what are the growth drivers that we are looking forward to for the next year in terms of growing it faster?

Tarun Arora: So, in the nine months gone by, we have had a double-digit growth. However, it's been impacted by specifically Africa market where we have had some challenges, specifically in our largest market, Nigeria, where there were macroeconomic challenges. But most of our other markets like Bangladesh Initiative, Middle East, are firing as per plan and good to build up right. But at an overall level, it will still be closer to 3, 3.5% because of the challenges we face. So, that's where we are.

Ajay Thakur: And for the drivers, you know, going forward, how are we looking in terms of growing the international business, say, for the next year?

Tarun Arora: So, like I explained, there are these three markets we have identified, Nigeria, Bangladesh, and Middle East. Nigeria, while we look for solving for the macroeconomic issues, in terms of our Bangladesh Initiative where we are investing, we created our subsidiary, and we are pushing stuff. We expect good traction. We have already seen some fairly good traction on that. Plus, we are launching new products, some of which are available in our investor deck for, we are starting with Middle East, and we will extend it to other markets as well on Sugar Free D'lite.

Ajay Thakur: And sir, lastly, in terms of the price increase, so, I believe we have taken some bit of a price increase. But given the fact that, you know, in the current quarter, if I were to look at it, it is kind of a flattish price increase that we are seeing. Can you just give some bit of indication of how this is like a trend in quarter four and onwards in terms of the price increases? Is there something that, you know, we can expect in terms of price increases going forward as well?

Tarun Arora: So, I think it's a mixed bag because like I explained, Nutralite, we had to because the oil prices come down, so we have to pass on. The net margins are good. So, we will take calibrated price increases on some of the brands, but some others will not be. So, there are no overarching complete price increases, but we do expect to continue to inch up our margins, gross margins. And that's really the focus to get back to our FY '21 numbers.

Moderator: Thank you. The next question is from the line of Devansha, an individual investor. Please go ahead.

Devansh Shah: Actually, sir, if it's okay, then I can speak in Hindi also. The mix of that would be much more appreciated. Sir, Heinz India purchase, we have purchased Heinz India by 4,500 plus crores company in 2019. I can see in the balance sheet the operating profit margin before that was 20% plus. In 5 years, we are nowhere near to this. So, is it a good purchase or is it like what has been happened and happened and you are now trying to survive only for all these days? Because you have a market, what we are seeing in the market, what we are seeing in the brands, where are we standing? Sir, really, I am an individual investor, sir. I am a retail investor. So, I have my own perception for that. Sir, after 5 years, we are nowhere near to some 18%, 20%. Dividend payout is also worst. It's going on worst part. Heinz India was a good company before that or after buying that, we have disrupted the company.

Tarun Arora: So, I will give you a short answer and if you need more details, you can contact our IR and we can explain a little bit more. I think there are two parts to this. So, there are two parts to this. I think at an overall level, there has been two or three fundamental changes from 2019 to now. One is a substantial GST budgetary support, which is sitting, which you have stated on records, which is almost 30 crores to the EBITDA, which is missing in the base number, which is not there.

Second is '21, on FY '21 after that, there has been substantial inflation, which has impacted gross margins for all FMCG companies, including ours, largely impacted by milk, oil and other factors and DMH etc, which has impacted us. While we manage that with a lot of our cost cutting, but like many other FMCG companies and much smaller than some other companies, our EBITDA margins have been impacted. Having said that, we do believe that over the next two years, EBITDA margins can go back to 17, 18 that we want to do and with our actions in place.

Talking on the top line, I think from what we acquired, the three brands that we acquired, Nycil was at 31% market share when we acquired. It's already at 35%. We believe our margins as well as all our actions in the place, we have increased the margins. We have increased the market share and the presence of Nycil, which has been more successful with us.

Even Glucon-D, which has had, should I say, a little bit of more volatile run, thanks to COVID and last year's summer season getting impacted, market shares have got consolidated from 58% to 60% plus. The category has gone through a pressure because we defined the category that there was a penetration hit in 2020, but post that our penetration and more consumers have come on board. We believe this will continue to build forward. We have a job in expanding the category to the next level, which is what we are working on. So, both these have demonstrated substantial consumer acquisition, margin improvement and better execution.

The third brand, which is more talked about and was already under stress under Heinz when we acquired, had already dropped from a double-digit market share to mid singles. I think it was a known challenge which we took on. We believe we will be able to do it better. Of course, there are challenges. We are still at a very similar level of market shares the one we acquired it at closer to 5%. We have probably lost 0.2% or 0.3% over that because the market has not expanded and to make it worse, the milk prices have impacted the margins.

The good thing is that while the leaders drop the prices, we have held ourselves our nerve. We didn't drop the prices. We played with the price point and held us as well. We believe with more actions in place, like we have discussed, we are good to build this brand forward as the prices are getting better from the input prices. And the competition is also realizing that low prices is not the way to build brands. I think our margins will improve and we are at par to getting recover our shares. But that's a little bit longer haul than we estimated at that point in time.

But at an overall level, despite all the macro and other things, I think the Zydus Wellness team has done an exemplary job of integration, making it one team and taking some of these brands forward. I think from where we acquired Heinz brands or so-called iconic brands that they were, they are in a better home, and they will become only larger from where we are. So, that's my view. More details, of course, we can share in a separate conversation.

Devansh Shah: Yes, that's a normal, I understood the thing. Otherwise, there should be some part on the annual report also regarding this and five years where are we standing? Sir, we can understand if FMCG or some sector is going through some of the hurdles or some of that they are not in the correct flavor of the market. That we also understand that FMCG is not the flavor of the market from last two years or three years. But sir, the retail guy will also understand I have never seen in my life milk price getting reduced at the inflationary point. I have never seen this in the last 20 years, like 20 years would be very small to justify something like this. But sir, my genuine question was regarding that before that company was having only 2, 3 brands, which were the market leaders. The operating profit margin was good and now you are telling that in two years, you are going to come back over there. That's a good part. That's only, that was the major question from my side or from the retail side.

Moderator: Thank you. We have our next question from the line of Mayur Parkeria from Wealth Managers India. Please go ahead.

Mayur Parkeria: So, actually, somebody just took away the thought and it was also similar. I also had a similar question, maybe a little more diplomatically and nicely put regarding the same Heinz portfolio. You have summarized your actions and what we have done over the last five years well and you have also tried to give us some understanding of how we look at over the next two years. So, that will help us.

I will just add a small aspect here and if you can clarify that also. And from a shareholders return perspective, now I understand that management can execute their strategy. Markets will do their own things, right? We know that, but over very long periods of time and five, six years are long period times, obviously, there was COVID. There are other aspects. We understand that.

But having said that, it's 5, 6 years and other companies have done relatively better, if not something very phenomenally good. But they are still continuing to do better than that. From that perspective, from a shareholder wealth perspective, do you believe, I am not asking a one-quarter, two-quarter, one-year, the kind of outlook on stock prices or something, but in general, promoters and owners are the largest shareholders here, and do you believe that now this quarter marks the bottom as far as many of the aspects which were concerned with respect to demand, with respect to cost, with respect to initiatives, with respect to market share and brands and some of the changes which had to be done, do you believe everything is now largely behind us and we are on a trajectory where long-term investors and shareholder returns can see an uptick from here on?

Tarun Arora: From a cost point of view, I think this is the lowest we have seen. So, cost-wise we should be only getting better, hopefully with no crazy situations happen. Demand is clearly a situation which is dynamic in nature. Right now, we are seeing a positive moment and we do expect things to only get better from here.

Just from a market share point of view, we touched our peak of last five years across most of our portfolio and we remain positive about building on these market shares. So, competitively, we are in good shape. We are looking at hopefully demand only getting stronger. Cost-wise, we remain again positive that we will improve our gross margins and we will be able to take it to our bottom line.

Mayur Parkeria: Sir, 17, 18% kind of margins in two years will be largely led by gross margin improvement?

Tarun Arora: That will be the biggest driver and the operating leverage if demand plays out the way we are expecting at least. That's the largest two factors.

Mayur Parkeria: Sir, we have also reduced the debt over these years substantially and now practically debt-free kind of status. We are coming back to normalcy as far as the balance sheet strength is concerned. Why can't we increase our direct reach or the reach? Just a theoretical question, but just to understand your strategy, why can't we reach 3.5 million outlets in one-and-a-half year instead of three years? Just a question, just a period because you mentioned, means what stops us to grow our distribution now we have the strength? Is it spending which is the curtail or is it just the market dynamics or our conservative approach in which we want to build this?

Tarun Arora: We are not conservative. Actually, when we acquired we had 2.4 lakh outlets. Now we directly cover more than 6, 6.5 lakh outlets. 2.9 million outlets is where our products are available but our direct coverage is only 6, 6.5. Overall, we have seen GT, the general trade being under pressure over the last couple of years where a lot of consumers have shifted demand to e-commerce and non-trade. That accounts for almost 21% of our business. So, while we are driving our general trade reach, we are also conscious of our cost to serve. So, it's a balancing of expansion as well as cost parameters. We are reasonably bullish and capable, but we will do it in a calibrated way so that our costs are managed and not just driving it for the sake of it. So, it's a balancing the two sides.

Mayur Parkeria: Last question from my side on Everyuth. Apart from the scrub and the peel, is there any product which you see has potential to grow and which has over the next two years or long term it is possible, but over the next two years which is positioned in a manner compared to peers or in a category which can give us, enhance this growth rate in a category which is there for the overall brand itself?

Tarun Arora: Simplistically put, I think scrub and peel off can give us all the growth that we need, but we have had at least two or three more initiatives. We have launched body lotion. We are working on channel-led specific initiatives on face wash. We have a couple of benefit-led segments like data and portfolio which will add to this growth. But our core will continue to drive based on increasing their penetration and reach is how we feel. There is enough scope within the skincare to grow of that.

Moderator: Thank you. We have our next question from the line of Malhar Sanghavi from Vama Financial Services. Please go ahead.

Malhar Sanghavi: I had a question on Immunovolt. Has the demand for that picked up as expected? And if not, then what's hindering the growth there?

Tarun Arora: So, it's still a small part of our portfolio. It is still very small, and we are working on driving it further.

Malhar Sanghavi: One more question just to follow up on the stevia-based Sugar Free. So, that's supposed to be a healthier based Sugar Free, if I am not wrong. And if that's the case, why is it not showing as much growth as it should? Like, why is it not picked up the way you are expected at a couple of quarters or a couple of last year?

Tarun Arora: Sugar Free Green as we call it, a stevia-based Sugar Free, it is driving, it has been growing for 11, 12 quarters in high double digits and that's what we have talked about. So, it is actually driving the major part of the Sweeteners portfolio.

Malhar Sanghavi: And lastly, if I am not wrong Sugar Lite is doubling each year, right?

Tarun Arora: Sugar Lite, it was doubling each year. In the last few quarters, as we mentioned, there was a trademark litigation and that has impacted our business and impacted our sweeteners and overall business portfolio.

Malhar Sanghavi: Right. So, just wanted update on that like how…

Tarun Arora: Like I explained, we will come back in March. Post March, we should be back and selling it and, of course, that we will share in the next quarter our plans and study that.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to management for closing comments. Over to you, sir.

Tarun Arora: Thank you everyone for your questions. We hope to have a good run in 2024 and wish you all a very nice, healthy 2024. We will see you in the next quarter results. Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.