



“Zydus Wellness Limited Q3 FY-17 Results
Conference Call”

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MR. GANESH NAYAK – DIRECTOR, ZYDUS WELLNESS LIMITED
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MR. AMIT JAIN – CFO, ZYDUS WELLNESS LIMITED
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Moderator: Ladies and gentlemen good day and welcome to Zydus Wellness Limited. Q3 FY17 Post-Results Conference Call. As a reminder, all participants' 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 '*' 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 of Zydus Wellness Limited. Thank you and over to you Sir.

Tarun Arora: Good Afternoon and welcome to the Post-Results Tele Conference of Zydus Wellness Limited for quarter 3 financial year 2016-17. We have with us Dr. Sharvil Patel – Chairman, Mr. Ganesh Nayak – Director, Mr. Amit Jain – CFO, Mr. Nitin Parekh – CFO of Zydus Group, Mr. Vishal Gor and Mr. Tushar from Cadila Healthcare Limited.

The company registered an overall consolidated growth of 0.2% in sales for the quarter and 6.5% for the nine months ended 31st December, 2016. The quarter gone by has been exceptional due to the unexpected announcement of demonetization of high value currency notes by the Government of India in early November. The sudden liquidity crunch across the credit channel has impacted our overall business with all our brands witnessing muted sales growth during the quarter. The impact was more severe in the wholesale channel, however, despite the liquidity pressures in the trade, we have been able to continue our business without compromising on our credit terms and have seen positive recovery in the last few weeks of the quarter. During the quarter gone by our key brands namely – Sugar Free, Everyuth Scrub and Everyuth Peel Off have maintained leadership positions in their respective categories.

With that let me share some of the highlights of the operations for the quarter gone by:

On the Sugar Free front, we continued our “Smartness Wali Sweetness” campaign featuring brand ambassador Parineeti Chopra to drive increase in the off take of Sugar Free category in our market share. We will continue this campaign in quarter 4 as well. Festival linked consumer activations for example, Durga Pooja and Christmas were done to build the category. We are planning to launch new Natural Sugar Free variant in quarter 4 of this financial year. To drive category penetration for scrub, a new TV campaign was launched during the quarter. Going forward, we have planned a series of initiatives. We plan to re-launch Tulsi Turmeric Face Wash with improved product and packaging. The initiative will be supported by our 360° campaign to drive awareness.

On the Nutralite front, Nutralite has continued to witness consistent volume growth during the quarter gone by. To further build and strengthen Nutralite credentials in Health Food space on ground activations were done during the quarter to drive the trials. Nutralite Premium range will be re-launched in quarter 4 with new packaging and improved taste. Also with the re-launch of the Premium range, two new flavor variants will also be introduced in the Premium range.

As per MAT December '16 report of Nielsen, the Artificial Sweetener category has grown by 7.3%, Sugar Free has maintained its number 1 position with a market share of 94.2% which is an increase of 60 basis points over the same period last year. The Scrub category has grown by 6.6%; Everyuth Scrub has maintained its #1 position with a market share of 30.4%. The Peel Off Mask category has grown by 4.9%. Everyuth Peel Off Mask has maintained its number 1 position with a market share of 90.9%.

Coming to the consolidated financial performance of quarter 3 financial year 2016-17:

Our total income from operations was up by 0.4%, year-on-year to Rs. 111.8 crores. Our gross margins saw a decline of 320 basis points and stood at 60.7%. The reduction in gross margins was primarily driven by increase in prices of key input materials. On the similar lines, we saw our earnings before interest, depreciation and tax going down by 7% year-on-year to Rs. 22.3 crores. As a result, EBITDA margin as a percentage of total income from operations decreased by 160 basis points and stood at 19.9%. Profit before tax was down by 8.5% to Rs. 28.4 crores. Net profit was down by 8.2% to Rs. 25.1 million.

With an improvement in the off take of Sugar Free as reported by Nielsen during the quarter gone by with new launches planned across the portfolio and continued thrust on marketing investments, we clearly foresee our growth rates improving going forward.

Thank you and we will now start the Q&A session, over to the co-coordinator for the Q&A.

Moderator: Thank you very much. We will now begin with the question and answer session. We take our first question from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Just wanted to check like you spoke about positive recovery in the last few weeks of the quarter. So now we are in end of January, would you say that you are back to pre-demonetization levels in terms of volumes?

Tarun Arora: Yes we are seeing a resurgence of our business back to normal, so I would more or less say we are close to back.

Shalini Gupta: And Sir my second question is, if you could just speak about how the volume growth has been in Nutralite?

Tarun Arora: So while we do not share brand wise numbers, but my initial speech talked about it, we are seeing a good volume growth on Nutralite. So our business in the whole last 3 quarters has been largely led by volume growth and Nutralite and Sugar Free have demonstrated that largely.

Shalini Gupta: And Sir you spoke about key raw material prices declining, if you would just throw some color on this, if you could give how maybe your two key raw materials have improved and your outlook going forward?

- Tarun Arora:** While we have seen several input prices going up but one thing which impacts our business max is the oil which has impacted us the most.
- Shalini Gupta:** Which one sorry?
- Tarun Arora:** Palm oil.
- Shalini Gupta:** So palm oil has gone up year-on-year.
- Dr. Sharvil Patel:** That is what we are saying, actually there is not an improvement, there is an increase in the prices, not a reduction in prices.
- Shalini Gupta:** Yes correct, so Palm Oil prices have gone up but what about few things like sucrose and all that?
- Tarun Arora:** So some of the other input materials have also gone up like Sucralose but those are things which can get absorbed and will not impact so much.
- Shalini Gupta:** So going forward, you are expecting Palm Oil prices; I think they are up on year-on-year basis by close to 40%.
- Dr. Sharvil Patel:** I think this one more quarter we might see this remaining so strong but this is probably going to be the higher-end prices, so this will probably come down post the first quarter.
- Tarun Arora:** And overall different product mix will also....
- Management:** Yes, our reliance on this Nutralite will come down compared to the other two categories. So you will have a better product mix for the next quarter.
- Shalini Gupta:** So like Nutralite is really the product in which your Palm Oil goes into?
- Tarun Arora:** Yes.
- Moderator:** Thank you. We take the next question from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** My first question pertains to whole demonetization quarter or at least two months of the quarter. I believe this was a very good quarter for us to measure the stickiness of our customer at least in the Sugar Free brand because a part of it is kind of habitual consumer, I am just assuming. So what was your reading of these last two months of the quarter's consumer behavior in Sugar Free?
- Tarun Arora:** So Sugar Free has continued to do well. In the last two months, we have seen Nutralite and Sugar Free being able to hold on much better despite a significant liquidity pressure at the trade level and these two brands have shown a fair level of resilience on this. Some level of

trade reduction in the inventory, the STRs have come down and some impact even on the off takes but it is still looking fairly good. Everyuth which is the personal care category that has got most impacted in that, I think as a category level and not just us. So if probably we were on a lowest growth rates Face Wash for example or the whole Facial Cleansing has seen in December versus many years, so that is really what it is and we hope that we should be able to sustain it better. We have seen modern trade response far better than I think it has been documented fairly well across public spaces that modern trade showed far better positivity, wholesale channel is the specific channel which gets most impacted but we are seeing good recovery now.

Tejas Shah: So is it a right assumption to make that Sugar Free and Nutralite actually performed much better than what let us say Everyuth did in this quarter?

Tarun Arora: Yes, absolutely.

Tejas Shah: And that is also broadly the reflection of the channel mix that respective brands have, right?

Tarun Arora: Yes.

Tejas Shah: And Sir if you can give us some update on our export business, how it did this quarter and more geography should be aligned up for the same?

Tarun Arora: Yes, so numbers wise it is still very small but to give you a sense of it, we have added two more countries this quarter. So we have added Myanmar and Qatar which we have started open. We will be probably opening about two to three countries every quarter or so, that is really where it is. So, focus continues to be like I mentioned to you in Middle East Africa, South East Asia and SAARC.

Tejas Shah: And Sir another very visible stress point for this quarter was gross margin and it fell sharply even not Y-o-Y but even Q-o-Q. So if you can help us understand in terms of product mix change, down trading and raw material pressure as you highlighted, what would be the rough proportion if you have to attribute to all these factors which led to margin erosions? Second, what will be the strategy to mitigate this margin ratio because I believe it is here to stay for now, at least?

Dr. Sharvil Patel: So for the margin, see we have strongly been affected only by the oil and the third quarter is very high on Nutralite in terms of volume because of that obviously we have a higher impact. Going forward, the other two portfolios will have a more salience in terms of business mix, so that will improve some part of the margin and I think we cannot say 100% but the way we see the trends every year, we should see that the oil prices again coming down from the high firmed up prices, so post quarter 2 we are expecting good correction in terms of oil pricing. But we are also at the same time doing margin improvement by increasing the realization on Nutralite too offset some of this but it will not happen overnight.

- Tejas Shah:** You meant Q2 of FY18 is it?
- Dr. Sharvil Patel:** Q1 of FY18. Calendar year quarter 2 but financial year quarter 1.
- Tejas Shah:** Sir just an academic reason why the proportion of Nutralite is usually higher in 3rd quarter?
- Tarun Arora:** Butter substitute so typically that is how consumers, larger pickups from consumers at that period of time.
- Tejas Shah:** Sir one last bookkeeping question, if you can guide us for FY18 and '19 tax rate?
- Dr. Sharvil Patel:** It will remain fairly still.
- Moderator:** Thank you. We take the next question from the line of Pratik Gandhi from Anand Rathi. Please go ahead.
- Pratik Gandhi:** Just couple of things, have we done higher promotions in the current quarter or is it more to do with inventory up-stocking at the secondary level, that is one? And secondly, why was excise duty higher in the current quarter versus last quarter, anything to call out in that?
- Tarun Arora:** Our promotions are largely consistent, they maybe a percentage here and there may change but I think we remain consistent. There may be a percentage point which maybe higher that is also to a bit of product mix and also to get our business back because there was a bit of secondary destocking but there is no inventory push clearly.
- Management:** On the excise side, it is lower because this quarter we have lower production and that is why our excise recredit, which is the excise refund which we get in state of Sikkim has been lower and that is why excise expense is a bit higher.
- Moderator:** Thank you. We take the follow up question from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir what would be the modern trade sales growth for the quarter, if you can share?
- Tarun Arora:** It is high double digits, close to 20%-odd.
- Tejas Shah:** And sir second, if you can help us understand what is the time line for Stevia launch and would the product be priced at a premium or discount to the current offerings that we have in the space?
- Tarun Arora:** So, I mentioned in my initial discussion that we have planned to launch a natural sugar free variant in this quarter itself and it will be premature to talk about any other specific details till we are already in the market at this point of time.



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Moderator: Thank you. As there are no further questions from the participants I would now like to hand the conference over to Mr. Tarun Arora for closing comments.

Tarun Arora: I would once again like to take this opportunity to thank all of you for participating in the call. See you next quarter. Thanks.

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