



**“Zydus Wellness Limited Q1 FY20 Post-Results  
Conference Call”**

**July 31, 2019**



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LIMITED  
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**Moderator:** Ladies and gentlemen, good day and welcome to the Zydus Wellness Limited Q1 FY20 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 the 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 – CEO & Whole-time Director, Zydus Wellness Limited. Thank you and over to you sir.

**Tarun Arora:** Good evening and welcome to the post results teleconference of Zydus Wellness Limited for quarter 1 financial year 2019-20. We have with us Dr. Sharvil Patel – Chairman, Mr. Ganesh Nayak – Director, Mr. Umesh Parikh – CFO, and Mr. Vishal Gor – Senior Vice President (Corporate Finance) at Cadila Healthcare Limited.

The quarter gone by has seen good improvement in growth rates for all our flagship brands with Sugar Free, Everyuth, Glucon-D, and Nycil. The seasonal brands were supported by prolonged summer season. As a result, our reported total income from operations on a consolidated basis grew by 333.6% to Rs. 6202 million during the first quarter of financial year 2019-20. Consolidated reported profit after tax stood at Rs. 804 million for the 1st quarter. Since the consolidated financial results for the quarter 1 of the financial year 2019-20 includes operating results of the acquired business, hence the reporting results are not comparable with those pertaining to previous period.

Also, due to the seasonality of some of the group’s products, group’s revenue and profits skewed in favor of the first and last quarter of the financial year. Hence the performance of these quarters is not representative and cannot be generalized for other quarters. We have restructured the management team of the two businesses into one simplified organization. We believe the new structure will help leverage the strengths of both the businesses to reduce cost and enhance distribution footprint over the next 4 to 6 quarters. During the quarter gone by, our key brands namely Sugar Free, Everyuth scrub, and Everyuth peel-off, Glucon-D and Nycil have been leading in their respective categories.

Let me take you through the highlights of the consolidated financial performance of quarter 1 financial year 2019-20. The term’s adjusted income from operations, EBITDA, PBT, and PAT exclude central capital subsidy income of Rs. 1.3 million recognized during quarter 1 of the current year. Additional excise duty credit of Rs. 94.8 million and central capital subsidy income of Rs. 22.8 million which was recognized during quarter 1 of the previous year. During the first quarter of financial year 2019-20, our adjusted total income from operations has increased by 372.4% year-on-year to Rs. 6201.2 million. While our reported EBITDA was up by 452.7%, adjusted EBITDA was up by 1081.4% year-on-year to Rs. 1218.8 million. Adjusted profit before tax was up by 352.2% to Rs. 797 million. Adjusted net profit was up by 428.9% to Rs. 802.7 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 increase market share of our brands during the year. To narrate a few:

On Sugar Free front, during the quarter, we continued to invest behind the brand through high-intensity media campaigns on back of Sugar Free thematic TVC and Sugar Free Green campaign. Various other initiatives like branding and sampling in large number of QSR outlets and modern trade activations were done to scale up Sugar Free Green.

On the Everyuth front, during the quarter gone by, the brand continued to maintain its growth momentum backed by strong media campaigns on all 4 portfolios, i.e., scrub, peel-off, face wash, and tan removal range.

Our campaign by some of the topmost beauty influencers was taken up to drive the brand's relevance and presence in the digital space and with the continued support on e-commerce channel, the channel continued to grow in triple-digits.

On ground visibility modern trade with theme of summer-ready skin further helped improve the impact.

On the Nutralite front, the quarter gone by saw continued growth on the back of support from various initiatives like sampling and attractive consumer offers.

On the Complan front, we continue to invest behind the brand by increasing media weightages in the key markets through multiple media. We also launched consumer offer on the leading packs to drive trials and generate demand.

On the Nycil front, Nycil's relaunch with new clinically proven formula and new packaging has been successful with investments on TV leading to gain in market share across the country.

On the Glucon-D front, Glucon-D investments on TV have been stepped up to support brand growth in the season. This has led to brand gaining share nationally.

As per the MAT June '19 report of Nielsen, the sugar substitute category growth rate is at 3.8%. Sugar Free has maintained its No.1 position with a market share of 94.3%. The facial scrub has grown by 16.6%. Everyuth scrub has maintained its No.1 position with a market share of 32.7%. The peel-off face mask category has grown by 18%. Everyuth peel-off mask has maintained its No.1 position with a market share of 84%.

The prickly heat powder category has grown by 13.7%. Nycil has maintained its No.1 position with a market share of 33.4% which is an increase of 105 basis points over the same period last year. The glucose powder category has grown by 17.9%.

Glucon-D has maintained its No.1 position with a market share of 59.8% which is an increase of 51 basis points over the same period last year. The MFD category has grown by 9%. Complian has a market share of 5.8% for the MAT number.

We will now start the Q&A session. Over to the coordinator for the Q&A.

**Moderator:** Ladies and gentlemen, we will now begin the question & answer session. We have the first question from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah:** Sir, if you can give some like-to-like color on growth rate and other parameters on the different portfolios, the core one and the acquired one?

**Tarun Arora:** On a comparable basis, on the top line, the non-acquired old portfolio of Zydus Wellness has growth at about 10% and the acquired business has grown by about 20% for the last quarter.

**Tejas Shah:** Sir, because there is a seasonality built in, in the portfolio for 1Q, historically 1Q has contributed to what percentage of annual sales for the acquired portfolio?

**Tarun Arora:** It is about (+30%) approximately.

**Tejas Shah:** Does that change our merged entity seasonality materially in terms of that it will become now consolidated entity also will become 1Q heavy?

**Tarun Arora:** The quarter 1 will remain heavy because of these brands are reasonably large and therefore there will be a substantial value.

**Tejas Shah:** Sir, on the margins, were there any one time adjustment on the numbers on margin front?

**Umesh Parikh:** We had some one-time costs basically on 2 accounts. One is the stamp duty that we paid on amalgamation and the other one is some one-off expenses on consultants.

**Tejas Shah:** Sir, one of the competitors of Glucon-D mentioned that they have gained market share this quarter. I just wanted your read on the market scenario and competition intensity in this space. And you mentioned that as per Nielsen, we have gained market share. The primary and secondary offtake for us has been in the same vicinity or there is a gap between the two?

**Tarun Arora:** We have just reported we have got a substantial growth, like I mentioned to you, 20% on a comparable basis of the acquired portfolio, even our market share gained, and we have seen offtake for the category is also good. So, we have really gained share and really gained at the cost of other players.

**Moderator:** We have the next question from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

- Kaustubh Pawaskar:** Sir, Sugar Free category is growing in single digit and that was the case even in quarter 4. What exactly is going on with the category? Is there a slowdown in the consumption or what is happening in the category itself?
- Tarun Arora:** If you recollect, last quarter we had reported about a 1%-odd growth at the MAT level. That has gone up to close to 4% at the MAT level. That clearly demonstrates a substantial improvement in within 1 quarter because these are 12-month numbers. We have seen a good double-digit growth in the last quarter in the oftakes and we hope to build on it as we go forward. We have seen some good improvement in Sugar Free.
- Kaustubh Pawaskar:** But sir, this improvement was because of the new variants which you have launched in terms of Green and Stevia or the base product is doing good?
- Tarun Arora:** We have seen improvement across the portfolio and we cannot get growth of this order with only the new variants, the base also has improved.
- Kaustubh Pawaskar:** Sir, the monsoon started quite late and July was also quite weak. So, should we expect some of the summer category products to do well in the quarter 2 as well in terms of Glucon-D and Nycil?
- Tarun Arora:** We are also new to this category. We are quite hopeful if we can sustain it. We expect some benefits flowing into July. Further, I think it will be too hard for us to guess the numbers.
- Kaustubh Pawaskar:** Sir, some comment about the Nutralite as a category. How it has grown this quarter?
- Tarun Arora:** Nutralite has continued to grow. Over the last 3 years, it has done reasonably well for us. This quarter was slightly lower growth, high-single digits. We believe this is only a temporary phenomenon but it will continue to grow. It is all a volume-led growths on this category. At annualized level, we continue to grow at double digits.
- Moderator:** We have the next question from the line of Harsha M from Vishuddha Capital. Please go ahead.
- Harsha M:** Sir, this acquired portfolio growth of 20% is heartening to see. Do you expect this to continue in the next few quarters?
- Tarun Arora:** It is difficult to predict going forward. We are working towards continued growth but these are also driven by part seasonality and part share gain when the category substantially grows. We love to do that but I think we are more interested in continuing growth momentum. The numbers are very hard to predict today.
- Harsha M:** I have another question on Complian. Historically, if you look at Complian's numbers, basically it has lost market share and sales have sort of degrown or stayed flat. It has now I think 6%

market share. I think Zydus as a company has an opportunity to significantly increase market share in that. Are you thinking in those lines? What are your plans regarding that?

**Sharvil Patel:** As Tarun was earlier speaking, our base projections were that we would be growing the acquired businesses around 10% to 12%. For this quarter gone by, we have seen a very positive traction in terms of significantly improving the growth trajectory. We will continue to execute well on many of these things to make sure that we continue to deliver on the growth if the markets are conducive. When it comes to Complian, what you say is right. That is the brand that has been challenged significantly over the last 4 to 5 years. We have done a lot of effort as part of the brand strategy in the last 3 months post our acquisition. New communication, new go-to market in terms of activation, and also doing a good amount of medical detailing, all of those activities will be starting in the next 2 quarters and we believe that if we are able to revive the growth on Complian, you would see a far better growth for the overall business because all the other brands are doing well. Complian is something that we have to rebuild which the process has started and the results we can see maybe from the third and fourth quarter once we do all the activations in this quarter.

**Harsha M:** This is regarding what actually happened for Nutralite over the last few years. Historically, it was sort of flat for a significant amount of time, and since the last 2-3 years, it is growing at I think 20% or so. What led to this actually?

**Tarun Arora:** It is just a mix of our activations and stronger go-to market drive that we have done over the last 3-4 years. We have seen consistency. I think there is enough market for this. Our task is to build the market and we are working on that. That is largely the piece we have been able to do.

**Sharvil Patel:** It has largely been driven by our efficient sales force effectiveness.

**Harsha M:** Are we seeing good traction in the mayonnaise? What is the sales or anything that you can give us?

**Tarun Arora:** Mayonnaise is still trailing behind our expectations and we are working on that and we should see if it picks up as per our expectations. The fat spread is actually ahead of our expectations. Mayonnaise we still need more work to do.

**Harsha M:** Do we expect the working capital to continue to be negative for the combined entity?

**Sharvil Patel:** For the old business, working capital is negative. For the acquired business, during the season part, it is slightly positive but on an annualized basis, it remains negative.

**Moderator:** We have the next question from the line of Gautam Chandaver from Mangal Keshav Securities. Please go ahead.

**Gautam Chandaver:** I would like to know your segmental revenue breakup quarterly by brands.

- Sharvil Patel:** We don't provide brand-by-brand segmentation. The largest brand is Glucon-D followed by Complian and then Sugar Free.
- Moderator:** We have the next question from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.
- Binoy Jariwala:** I missed the opening remark with regards to the glucose category growth. If you can just help me with that once?
- Sharvil Patel:** At the MAT level, glucose powder category had reported a 17.9% growth.
- Binoy Jariwala:** When you said Zydus Wellness sales grew by about 10% and HIPL grew by about 20%, how much would be the volume part in this?
- Tarun Arora:** The 10% growth is largely a volume-led growth. On the acquired portfolio, we have about 7% approximate value growth. Remaining all has been the volume.
- Binoy Jariwala:** So, roughly about 12% to 13% is volume growth?
- Sharvil Patel:** Yeah.
- Binoy Jariwala:** With regards to the HIPL portfolio, have we started rationalizing the trade loads? Has it been completely rationalized? Is the complete impact seen in Q1 FY20?
- Tarun Arora:** We are not in the process of rationalizing any trade loads at this time. Our focus was to be more effective usage of our existing resources, and this would not be the best time to start any fundamental changes in the business.
- Binoy Jariwala:** How was the gross margin on the HIPL portfolio?
- Umesh Parikh:** Gross margin on HIPL portfolio ranges from 55% to 59% depending on the product mix.
- Binoy Jariwala:** In this quarter also, irrespective of the seasonality, it was in 54% to 55% range?
- Umesh Parikh:** Yeah, it was 55% plus.
- Binoy Jariwala:** Sir, last question is on the amortization of goodwill and intangibles. Have we started doing that in the books? Because I could not see that in the financial results.
- Umesh Parikh:** It is actually a part of the subsidiary of Zydus Wellness Limited. We amortize in the books as per the order of the NCLT. At consolidated level, you will not see because consolidated accounts are prepared as per Ind-AS and there the goodwill amortization is reversed.
- Binoy Jariwala:** So, we have started doing that, right?

- Umesh Parikh:** Yeah, we have started doing that.
- Binoy Jariwala:** This will be amortized over how many years, and likewise intangibles also, the other intangibles will be amortized over how many years?
- Umesh Parikh:** In the books, it will get amortized over 10 years and it will be at the rate of 25% on WDV under Income tax and brands will not be amortized in the books. Only Goodwill will be amortized in the books.
- Moderator:** We have the next question from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Just one follow-up. If you can give some qualitative or quantitative comments on synergy benefits so far in distribution marketing and cost rationalization.
- Tarun Arora:** We have just spent five months. We have largely run these businesses because of the high seasonality and separate teams but like I mentioned to you, towards the end of the quarter, we have now clubbed them together into one management team. Now, over the next few quarters, we will be working on simplifying the management structure across levels and also working on various synergy benefits, one of the biggest being that we will look at distribution expansion at a combined level over the next 4 to 6 quarters and that should start flowing in after that.
- Sharvil Patel:** There are 3-4 initiatives that we have taken. Tarun alluded to the distribution where we hope to more than double our distribution by doing field force alignment. Secondly, we will see cost benefit coming through on multiple fronts, both led by the consolidation of supply chain, consolidation that we will do in terms of cost to serve for the product, and also we will see some rationalization in terms of territories and all of that. All of that will lead to some important cost savings as well as efficiency improvement which we hope to build over the next 12 months.
- Tejas Shah:** So, is it fair to assume that this quarter's numbers did not have much of consolidation benefit at least on distribution front?
- Sharvil Patel:** Yeah, mostly we had additional one-time expenses but we did not have many benefits on cost consolidation.
- Tejas Shah:** So, it will come through in the rest of the year as we go along?
- Sharvil Patel:** Yes.
- Moderator:** We have the next question from the line of Nilesh Shah from Envision Capital. Please go ahead.
- Nilesh Shah:** I just wanted some update on Sugarlite. It has I think been more than 6 months since we have launched it. It would be helpful if you could just kind of give us an update on that as well?



**Tarun Arora:** There are two parts on Sugarlite. First of all, yes, it has been 6 months. We have seen a good response from the consumer front, but from just the numbers, it is still trailing the milestones that we have kept for the brand, we have invested behind it. Going forward, we are seeing that the key resistance is coming in trials. While people who adopted the brand, we find that people are accepting it and making it a part of daily habit. So, it gives us confidence. We will continue our efforts, specifically in some specific markets where we will pressure test for further trials and then we will see how we build it forward.

**Nilesh Shah:** I think it is available online, but I just wanted to know if it is kind of there in the conventional offline distribution points.

**Tarun Arora:** Yes, it is there in conventional offline. It is there in major modern trade as well as standalones, even in traditional trade. We have seen some level of push back from some stores which have seen slower demand. However, there are some parts of the channel where there has been a consistent demand. So, it is an uneven space right now. As we built forward, we will look at some of the more initiatives to course correct as we build it.

**Sharvil Patel:** To extend what Tarun spoke about, we did the initial launch with the product and we have learnt a couple of things. A couple of things he alluded to is a good part of this is that once the trials are generated, we are seeing good traction in terms of sticking to the product and the lapses are much lower than what we had expected. So, we are seeing a good continuation of the product. What we need to work much harder now is make sure we are able to generate more trials and for that, we are working out the whole strategy. Also, there are two issues. One, we are also further improving the quality attributes of the product in terms of perception on taste and also looking at trials doing something on the consumer offer side to make sure it is more economically priced to make sure that we can create some kind of parity around the pricing. We will try all of these things in the next couple of quarters and if we are able to see a strong traction, then we can really double down on major investments on this.

**Nilesh Shah:** Just a thought as a layman, do you think Sugar Free and Sugarlite, is it kind of sending any kind of confusing message to the end consumer that is this actually an artificial sweetener or is this sugar or is it a combination of the two? I am just saying this because the two names rhyme together and it comes in from the same stable. Just my thoughts as a layman.

**Sharvil Patel:** Two things. As part of course correction, we don't write Sugar Free now on the pack. The new packs will not have Sugar Free. The other important fact is the pouch pack is compared to many of our other products which are very different, it is more closer to sugar. It is also placed next to sugar and not placed next to the sugar substitute. A couple of these things we have done to create a different perception to the brand being natural product compared to the other products.

**Tarun Arora:** So, we believe why our course correction in the marketplace, the confusion is minimized. We are not seeing even on our consumer work any significant overlaps on that.

- Nilesh Shah:** That's what I thought when I saw the way it was getting positioned. I was just not too sure if the consumer is getting the right message but, well, that's good to hear there are some course corrections.
- Umesh Parikh:** We will also write blended sugar on the pack.
- Moderator:** We have the next question from the line of Kunal Shah from Carnelian Capital. Please go ahead.
- Kunal Shah:** I just wanted to understand for you did touch upon the 20% growth that we had in this quarter for the acquired portfolio but if you could throw some light. I mean, this growth was because of the additional touch points that we created and within the 20% growth, if you could share some light on within the acquired portfolio, what helped this 20% growth per se?
- Sharvil Patel:** The growth was mainly driven by Glucon-D and Nycil which have exceptionally performed well, partly to do with obviously the prolonged or the strong summer that we have had. Also, we have done important tweaks to the SKUs that we wanted to do in terms of promotion in 10 cities. We have done changes there in terms of making sure that we bring out the quality and scientific attributes of the product in the right form. I think right SKU privatization, also the communication strategy that has gone in through the team, has helped these two brands significantly. Those two brands have led most of the growth for the acquired business.
- Kunal Shah:** You did also touch upon the strategy going ahead as far as the rationalization goes. If you could throw some more light on how distribution synergies per se will kind of lead to the growth for the acquired portfolio as well? I mean, you did touch upon cost benefits on account of supplies.
- Sharvil Patel:** Individually, each of the businesses cover 2.5 lakh direct coverage in terms of distribution. Our plan is to more than double the distribution. Once we are able to align the sales force, we are going to double down on the distributions and increase our reach points to closer to 5 lakhs over the next 18 months and that is our plan and that will help significantly brands like Sugar Free, Complian, Everyuth, and Nycil.
- Kunal Shah:** These are going to be additional touch points and not the synergized points. Am I understanding it correctly, sir, for the combined portfolio?
- Tarun Arora:** This will include some of the synergized ones and some new ones. Some of them may have been serviced through even the wholesale also. So, it is very hard to say it right now. That will just mean an increase both numeric as well as the quality of distribution where we can also sell some of the SKUs which wholesale does not support. So, direct distribution has its own advantages and we hope to gain from those.
- Moderator:** Ladies and gentlemen, kindly use handsets while asking questions. We have the next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

- Ankit Babel:** A couple of questions. What are your CAPEX plans for this fiscal if any?
- Umesh Parikh:** Other than the maintenance CAPEX, there is no major CAPEX requirement this year.
- Ankit Babel:** So, sir, because the CAPEX is not much and your working capital is negative, whatever profits you will earn would be the free cash flows. Would you be utilizing it first to repay your debt or any other usage you have?
- Umesh Parikh:** The NCD will come due for repayment in the year '22 onwards in three equal installments of 500 crores each. Currently we will be sitting on the cash. We will have to discharge the interest liability on that, and whatever cash is remaining, we will be investing in mutual funds and fixed deposits.
- Ankit Babel:** What's your dividend policy, sir?
- Umesh Parikh:** Dividend policy is 30% of the net profit we distribute by way of dividend.
- Ankit Babel:** That you will continue?
- Umesh Parikh:** That we will continue.
- Ankit Babel:** Sir, is there a possibility of improvement in margins because of synergy benefits coming in over a period of time?
- Umesh Parikh:** Yes.
- Ankit Babel:** Any quantum like what you are looking at in the next 2 years?
- Umesh Parikh:** We are working on it but we would see at least 1% to 2% improvement in the short term.
- Tarun Arora:** We expect EBITDA margins over the next 2 years to move up back closer to what our traditional EBITDA margins have been, 21% to 22% at least.
- Ankit Babel:** Sir, I didn't understand that goodwill amortization part. You said that in standalone you will take but in consolidated, it will get reversed. Ultimately, will this goodwill go out of the balance sheet in the next 10 years or not?
- Umesh Parikh:** Goodwill will remain on the balance sheet of the consolidated book. In the standalone book, we will be amortizing and it will just go out after amortization.
- Ankit Babel:** But in consolidated, it will remain?
- Umesh Parikh:** Yeah, because in consolidated it is not depreciated.
- Ankit Babel:** So, what is the use of amortizing in standalone?

- Umesh Parikh:** As per the NCLT order, we have to amortize in the books of accounts.
- Ankit Babel:** Sir, your tax rate for the full year?
- Umesh Parikh:** In the next 2 to 3 years, it will be almost zero and thereafter, depending on the profit, it will be between 0% to 10%.
- Moderator:** We have the next question from the line of Sanjeev Panda from Tamohara Capital. Please go ahead.
- Sanjeev Panda:** Sir, in the growth-wise, you helped us to understand like-to-like basis. On the profitability, at least on the EBITDA level on a ballpark basis, if you can just help us the acquired and core business?
- Tarun Arora:** Because we have run these separately and therefore we have a handle on this which is closer to our estimation of about 26% on the wellness business which was a running business and about 40% growth on the acquired business without any one-offs. That's the growth rate we have got. Going forward, it will be harder to give as we pull the businesses together into one team.
- Sanjeev Panda:** Sir, when you said the synergy and benefits likely to come 1% to 2% improvement, what time zone that you look at like 2-3 years period or how is it?
- Tarun Arora:** Yes, 2 years period.
- Sanjeev Panda:** And sir, on the tech side just now you said, if you can just throw some more light on the acquired business tech side and the core business tech side, how is it different or how we arrive at this 0% tax?
- Umesh Parikh:** Because of the two things. One is because of the benefit that we have in the Sikkim. That is one part, and because of the NCLT order, we could depreciate the goodwill. Because of these two reasons, we almost get to zero tax.
- Moderator:** We have the next question from the line of Sameer Gupta from IIFL. Please go ahead.
- Sameer Gupta:** Just a few clarifications. You mentioned the MFD category growth rate at 9% on a MAT basis. Just to clarify, this would be in terms of value or volume?
- Tarun Arora:** Value.
- Sameer Gupta:** Sir, if you could also help with the implied growth for this particular quarter for the category?
- Tarun Arora:** It is in a similar range.

- Sameer Gupta:** Sir, you did not mention, if I recall, the market share gain or loss if any in Complian. At 5.8%, how many basis points is it different from last year same time?
- Tarun Arora:** We are down by 0.2, so about 20 basis points.
- Sameer Gupta:** Sir, any particular reason or any analysis on where you are losing share? Is it the mass end or the premium end or a particular geography?
- Tarun Arora:** There are a couple of spaces. There are markets where there is growth in the bottom end of the market which are sachets which are not profitable for us which we have chosen not to play, and there is growth in the adult segment which again we do not participate in. However, the brand itself needs to get a revival and therefore these are the three parts. First, we need to work on the brand to get the right growth. What is further affecting this share impact is the two segments that we by choice do not want to participate. One, because of sachets which do not provide us with sufficient profitability to make it viable and the adult segment which Complian right now is not the right segment. Broadly, those are the barriers.
- Sharvil Patel:** We also believe that this brand has been severely undermanaged over the last many years and it has consistently lost share. There are multiple things that have gone wrong. Pricing is one thing that has definitely gone wrong in the last year with significant increase in pricing that has happened. Also, the communication marketing plans have not been followed and carried forward and there were some gaps that got created during the transition which we had to correct. That also led to a depression in terms of market share. All of those things we need to correct. The good part for this product is we strongly believe that scientifically this is one of the strongest products in the market and gives very strong value attributes and quality attributes. We hope to communicate some of this going forward, improve a sharper communication strategy on the brand, invest behind the brand as it has been ignored, and also do the right SKU selling to make sure that we are selling the right SKUs which deliver value growth for the brand. All of those things we hope to correct for the next 6 months. So, next 6 months is important and our plan is to reverse the trajectory of the degrowth that we have had into making sure that this brand comes back to growth.
- Sameer Gupta:** Sir, just one clarification from my side. When you say the adult segment, do you mean the ProteinX and those kind of products?
- Sharvil Patel:** I am comparing it with products like Horlicks, like Pediasure, like ProteinX and all.
- Sameer Gupta:** Any particular reason why you don't want to participate in this market?
- Sharvil Patel:** In which market?
- Sameer Gupta:** This adult segment. You said that you have not registered your presence.
- Tarun Arora:** That is 50+ geriatric and etc.

- Sharvil Patel:** Ensure is a very different product and that we will do but we first need to solve our current problems without going into some new categories right now.
- Sameer Gupta:** That is the area where a large chunk of growth is coming from in this particular category. Even one of your competitors and the market leader is actually upping its ante on that segment.
- Sharvil Patel:** We have to understand that we are the 5th ranked brand in this category. So, we don't have a very strong market share and voice of share brand. We have enough to fix for the base where we feel we can get a tremendous amount of growth and gain market share. So, I think we have to get the base right before we talk about additional areas because everything needs more investment. So, I think we are going to work on mainly the core brand that we have. We are going to look at the younger segment, and then once we get this piece right, our strategy is to enter that area but it is not something for the next 1 to 2 years.
- Tarun Arora:** And there is enough of it in this to build on.
- Sameer Gupta:** Any geography-wise split that you can give for this brand like which are the geographies that you are strong at?
- Tarun Arora:** We have already talked about it earlier in the call. It is largely South Indian. If more details are required, you can reach us offline because there is limited time.
- Moderator:** We have the next question from the line of Sumit Modi from Arete Investments. Please go ahead.
- Sumit Modi:** Sir, you mentioned twice about the one-off cost that you incurred in the quarter. Is it meaningful? Can you quantify that?
- Tarun Arora:** It is about 31 crores, largely on account of stamp duty and some consultants as was explained earlier.
- Sumit Modi:** So, the margins that you are talking about is after including this?
- Sharvil Patel:** Yeah.
- Sumit Modi:** Sir, the 1150 crore kind of a size which was of the acquired business was for the trailing 12 months June '18. Can you give us a comparable FY19 number?
- Umesh Parikh:** It was a less than 1200 crores.
- Sumit Modi:** Mainly because of the common first and the bulky quarter?
- Tarun Arora:** Yeah, largely because of that and they had gaps in between because they were also in the handover mode.

- Sumit Modi:** Sir, the EBITDA also if you can for FY19, the like-to-like versus 225, what was it?
- Sharvil Patel:** It is around 16% to 18%.
- Sumit Modi:** Sir, you mentioned that there has been a rise in the ad campaign but then your overall ad cost of 10 crore, is it adequate and accommodative kind of which is reflective in this quarter? Can you elaborate on that?
- Sharvil Patel:** We are not able to understand your numbers that you are bringing.
- Sumit Modi:** Am I correct on the ad cost being 10 crores for this quarter?
- Sharvil Patel:** No, the numbers are incorrect. You may take it with the CFO later because the ad spend is 97 crores, not 10 crores.
- Moderator:** We have the next question from the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.
- Dhruv Bhatia:** Sir, my first question is on the acquired portfolio. In terms of the internal assessment, has it performed better than what you all had expected internally and also if you could just talk about in terms of the brand-wise?
- Sharvil Patel:** I think we have what you said for the acquired portfolio, it has done better than expected for Glucon-D and Nycil. Complian is not as per plans right now. That is something that we need to solve for in the next 6 months because the season is over for the other two products and we have achieved and surpassed our target. Now we have to make sure that we achieve growth momentum on Complian which is the revival that we need to do. So, I would say it has been positive in terms of what we had expected.
- Dhruv Bhatia:** Sir, what will be the ad spends for the entire year? You have already done almost about 100 crores. So, what type of a number can we expect for the entire year?
- Tarun Arora:** Total put together, in terms of amount, it will be about 14% to 15% of the sales.
- Dhruv Bhatia:** Have you already started seeing any benefits because of the consolidated entity in terms of the gross margin as well as in terms of ad buying?
- Sharvil Patel:** The gross margin thing, we are still working on, so nothing immediately right now. On the ad buying, yes, the team is working to make sure for the next year we have a better position in terms of buying.

**Dhruv Bhatia:** Could you help us with just a broad idea of in terms of the pecking order, how you mentioned in terms of the size is? Glucon-D is the largest followed by Complian and then probably Nycil. In terms of profitability, is it the same pecking order?

**Sharvil Patel:** As you said, Glucon-D followed by Complian followed by Sugar Free and then Nutralite. Those are the top three brands, and in terms of profitability, we see Glucon-D and Sugar Free have the significant amount of profitability.

**Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Tarun Arora for closing comments. Sir, over to you.

**Tarun Arora:** Thank you very much and see you next quarter.

**Moderator:** Ladies and gentlemen, on behalf of Zydus Wellness Limited, that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.