



“Zydus Wellness Limited Q2 FY-17 Post Results
Conference Call”

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MANAGEMENT: **DR. SHARVIL PATEL – CHAIRMAN, ZYDUS WELLNESS LIMITED**
DR. GANESH NAYAK – DIRECTOR, ZYDUS WELLNESS LIMITED
MR. TARUN ARORA – COO & WHOLE TIME DIRECTOR, ZYDUS WELLNESS LIMITED
MR. AMIT JAIN – CFO, ZYDUS WELLNESS LIMITED
MR. NITIN PAREKH – CFO, ZYDUS GROUP
MR. VISHAL GOR – INVESTOR RELATIONS, CADILA HEALTHCARE LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY17 Post-Results Conference Call of Zydus Wellness Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand over the conference to Mr. Tarun Arora – COO and whole time Director. Thank you and over to you Mr. Arora.

Tarun Arora: Good afternoon and welcome to the post results teleconference of Zydus Wellness Limited for Quarter 2 financial year 2016-17. We have with us Dr. Sharvil Patel – Chairman, Dr. Ganesh Nayak – Director, Mr. Amit Jain – CFO, Mr. Nitin Parekh – CFO of the Zydus Group and Mr. Vishal Gor – Investor Relations at Cadila Healthcare Limited.

The quarter gone by saw a good improvement in the growth rates of Sugar free and Nutralite. However facial skin cleansing category witnessed a muted sales growth likely driven by slowdown in the overall personal care category. As a result, the company registered an overall consolidated growth of 7.6% in sales for the quarter and 10% at YTD level.

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. We continued our thrust on marketing initiatives to grow the categories and market share of our brands during the quarter. To narrate a few, on Sugar free front, to further drive the off take of Sugar free category and market share of our brand, continued media support was given with two new advertising campaigns “Smartness Wali Sweetness” featuring brand ambassador Parineeti Chopra. The new campaign has been recognized amongst the top 3 advertisements in terms of likeability in August as per the national publication. We have also seen off take growth rates ramp up significantly over last 2 months. Various categories building growth initiatives like promotions on Culinary skills were also launched to boost consumption. We intend to build on the current campaign’s success by continued investments. We would also have an innovation plans for launch in Quarter 4 of this financial year.

On the Everyuth front, we continued the support for scrub and peel-off to drive the category penetration through various media activities and TV campaign. To further drive the growth of the new face wash range, a new pack announcer campaign was launched during the quarter helping revival of the growth rates for the face wash. Going forward we have planned series of initiatives over next 2 quarters to improve business growth for Everyuth. To name a few we have just rolled out last week a new campaign focusing on recruiting new users for the scrub. We have planned to re-launch Tulsi Turmeric face wash with improved claims backed by a new campaign which will happen over next few months. These will be strongly supported with on ground investments across the channels.

On the Nutralite front, we saw a positive response to our category development initiatives at regional level. These include regional media campaign as well as widening the reach in select cities. As a result of various brand building initiatives, we witnessed strong sales volume on YTD basis vs. subdued growth rate witnessed in the category over the last few years. The

growth rate is largely led by institutional segment. We see good opportunity to drive growth rate through retail segment on back of innovations and brand development going forward.

As per MAT September '16 report of Neilson the artificial sweetener category has grown by 5.2%, Sugar free has maintained its No. 1 position with market share of 93.9% which is an increase of 70 basis points over the same period last year. The scrub category has grown by 7.5%. Everyuth scrub has maintained its No. 1 position with a market share of 30.4%. The peel-off mask category has grown by 4.5%, Everyuth peel-off mask has maintained its No.1 position with a market share of 91.7%.

Coming to the consolidated financial performance of quarter 2 financial year 2016-17, our total income from operations was up by 7.5% year-on-year to Rs 1124 million. We saw strong improvement in our gross margin which increased by 140 basis points and stood at 66.8%. The expansion in the gross margins was primarily driven by improved sales realization.

On the similar lines we saw earnings before interest deprecation and tax going up by 13.2% year-on-year to Rs 305 million, as a result EBITDA margins as percentage of total income from operations increased by 140 basis points and stood at 27.1%. PBT was up by 10.8% to Rs 366 million. Net profit was up by 10.2% to Rs 321 million.

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

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Sir you mentioned that there is improved sales realization so there have been price increases in some categories if you could talk about that?

Tarun Arora: So I think it is largely led by product mix because the price increases are too marginally to have impacted its largely a sales mix which is driving them to realization.

Shalini Gupta: Okay. And last quarter we saw very robust sales growth and this quarter the sales growth is good but it has come off a bit. So I mean last quarter you have said that your sales growth was so high because of improvement in distribution. So what should we expect going forward because that improvement in distribution is it behind us or do we see the best of it going forward? What should we expect?

Tarun Arora: I think distribution is stable now and it has we are improving our distribution is one of the points because its being several times picked up. So distribution improvement is continued and therefore I think that alone cannot be the only driver of growth but that has clearly contributed and will continue to contribute. The difference between last quarter and now is that Sugar free and Nutralite continue to grow well. We have seen a muted growth which I mentioned in my speech on Everyuth which has led to lower growth versus last quarter which has impacted our growth and largely more led by the category growth coming specifically in facial cleansing at an overall personal care space which has impacted the growth rates and market shares largely remain stable so we have been hoping that as the category growth revives it will help us getting back to more positive growth. There is also one small element which is contributed if I may

add is which is GNK contributes to a small percentage of our business and we practically not build anything in that market so almost a percentage or 1 or half percentage loss which could have added back to the growth would have added to it. So we believe structurally we are in the same ballpark zone and we could quarter-on-quarter keep building on it. So with the supports we are getting with our campaign I am not perturbed on the direction of the growth.

Shalini Gupta: Exports are picking, exports are very nascent business for you. So, I mean would it be fair to say that exports are about 3% of sales now?

Tarun Arora: Yes, it is a very nascent portion of our business, it is slightly less than what you said but I think it's going very well and galloping fast but it shows small that not much to talk about.

Shalini Gupta: If you just help us try to understand the break up for turnover I mean like would I be correct in saying that Sugar free is about roughly half the business, would it be correct? If I say that?

Tarun Arora: I think we will intend to remain consistent with our approach we don't share the break up for sales.

Shalini Gupta: Okay fine. But if you could just give an indication. Okay Sugar free and Everyuth are totally like about 1/3 of the business would it be correct?

Tarun Arora: It will not be fair for me to comment think we will intend to remain consistent with our approach we don't share the break up for sales

Shalini Gupta: if you just say again the market share in sugar free

Tarun Arora: On our MAT basis it is 93.9% on MAT basis September 2016.

Shalini Gupta: And in Scrub?

Tarun Arora: Scrub is 30.4 on a MAT basis.

Shalini Gupta: Sir like how is the category grown you just mentioned it in your presentation?

Tarun Arora: On a MAT basis it is 7.5% but over last 6 months the category is basically been come down almost flattish if I were to give you sense of it.

Shalini Gupta: Sir actually the big concern with Zydus Wellness is that it's an urban focused play and you know there are concerns about the growth in the urban markets is coming back, especially in the larger metros which would be bigger markets. Sir if you could just comment on when you feel urban growth is coming back and how large are the metros for you as a percentage of overall sales?

Tarun Arora: Metros are important to us. We have seen some challenges on urban growth and we are hoping it will pick up but having said that modern trade is doing very well even in the urban space so I think there is not a one single trend that we can attribute the whole piece to.

- Shalini Gupta:** Sir I mean let us say in financial year '18 you would if let us say an analyst would to assume about 12% growth of financial year '17. So how much increase do see in financial year '18 from financial year '17?
- Tarun Arora:** We cannot comment on those forward-looking statements.
- Moderator:** Thank you. We will take the next question from the line of Abdul Karim from HDFC Securities. Please go ahead.
- Abdul Karim:** As of now Zydus are sitting on cash equivalent of Rs 440 crore approx. and you are looking for in organic growth opportunity. Could you put color on the same?
- Tarun Arora:** We are evaluating a lot of opportunities which are in health and personal care close to the spaces that we operate and we are open to these opportunities and the markets were like in India and some of the close by international markets well and we are constantly evaluating. We will be happy to share once we have a something concrete on that.
- Abdul Karim:** Okay and just you have told you have innovation plan in Q4 so in which category you are looking for?
- Tarun Arora:** So I just shared those innovations. One I shared specifically on face wash where we have putting together a re-launching one of our products with stronger claims and new campaigns. One I shared in my speech on Sugar free. In fact, across the board we have innovation plans so we will share once they are ready.
- Abdul Karim:** Okay in last con call you have told you are planning to export focus on Southeast Asia, West Asia and Africa so could you give some updates on the same?
- Tarun Arora:** So it is still very small we have opened few markets and especially in Middle East and that is really helping us ramp up the numbers but they are still small single digits.
- Moderator:** Thank you. We will take the next question from the line of Snigdha Sharma from Axis Capital. Please go ahead.
- Snigdha Sharma:** Zydus is in fairly nascent Indian health and wellness market and it should ideally being growing faster than your typical FMCG or consumer staples company and we are the market leaders by a wide margin in most of our categories but still we continue to be stuck in that quarterly run rate 95 crores to 110 crores or so. My question really is, is the category creation and adoption itself facing challenges and if yes, I know we been doing lot of spending on sales and advertising and promotion and we have done a distribution overall I just want to hear your thoughts about this?
- Tarun Arora:** So I think if your refer to my speech I think we clearly seeing our campaigns and our actions on both Sugar free and Nutralite where we are the category leaders and we have the clear task of building the category delivering results. We have got affected this quarter a little bit largely by Everyuth like I mentioned it you which is more because the category has slowed down and that is affecting. Our shares are reasonably consistent. We think with the category coming forward we can build that back. Yes, we are quite focused on driving growth at a faster pace. I

also shared with you in my speech that last couple of months we have seen the off takes on Sugar free ramping up. Hopefully, that campaign and then the off takes ramping up will result in a faster sales as well and therefore I think most of our actions internally as we see are taking shape. We also are ready with our pipeline of innovations for new products so over next 2-3 quarters I think all things should come together and further consolidate the growth that we are seeing.

Snigdha Sharma: Right sir. My question was not release specific to the company per se but generally as a category is Sugar free facing challenges in adoption or has it become more or less stagnant if you were to look at the past several quarters?

Tarun Arora: So that's exactly what I was trying to explain that last couple of quarters we have seen that overcoming that. Yes, we were seeing some level of stagnancy in terms of growth there. We have been able to move with our new campaigns and our initiatives both on ground as well as campaigns. We believe the adoption will ramp up with this campaign activations as well as new products. So, we are already feeling that the adoption rates are moving up I think we can build further on it. We believe the opportunity is much-much larger increase both penetration as well as consumption around this category. So that's the past thing we seem to be getting it right on that.

Snigdha Sharma: Sure, just in continuation with the prior question somebody asked use of cash on the books, and you said you would be keen on looking at some health and personal care products. Can you may be talk specifically about some of them that you have in mind?

Tarun Arora: M&A the way it is I think it will be better if you want to do a more detailed discussion you can speak to our investor relation, but I think will be not fair to share more details in short call like this.

Moderator: Thank you. We will take the next question from the line of Kaustubh Pawaskar of Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: Sir my question is on Nutralite, in your initial comment you mentioned that Nutralite you have seen improvement in sales. So, can you just give some quantification that what was the sales growth you achieved in this quarter and what is your market share in Nutralite?

Tarun Arora: Like I explain to you in my speech is well that after a muted growth over a few years we are seeing Nutralite is showing good progress in terms of growth rate. We do not share specific category wise growth rates but I also explained to you this largely led by our initiatives on the institutional segment. We see still enough potential to grow our retail segment as well and we will be taking initiatives to drive it. There are several new launches also planned on this which should follow through in the next couple of quarters.

Kaustubh Pawaskar: But sir are there any plans to bring the revenue mix between institution and the branded space equal will in the coming years because I believe currently institutional space is more than 60% of Nutralite revenues and going ahead are there any plans because branded space obviously, the margins are on a better side if we compare it with the institutional space?

- Tarun Arora:** Yes, we want to grow the retail segment faster and more aggressively that's clearly part of the plans and it will expand the margins as we go but it will also need investments. Our innovations are also targeted more in that space. So, there is clearly opportunities to improve performance in terms of taste and several other factors and there are adjacent categories which we intent to explore in this space.
- Moderator:** Thank you. We will take the next question from the line of Naishar Shah from Capital 72 Advisors. Please go ahead.
- Naishar Shah:** What was the volume growth this quarter?
- Tarun Arora:** Its largely volume growth only. I think that there are no price increases specifically which have been taken.
- Naishar Shah:** Because you have said that the gross margins have improved mainly due to richer sales mix. So if you are just split the sales work between say in richer sales mix and underline volume growth?
- Tarun Arora:** It's a product mix thing. But no products which we have really taken a price increase, largely a product mix variation.
- Moderator:** We will take the next question from the line of Ajay Thakur from Anand Rathi Securities. Please go ahead.
- Ajay Thakur:** I had two questions one is last time you did mention that there were three markets which you know we have actually got registered and we are exporting to and three we are additionally which we are looking at. So any further traction on that as in including new markets or a registration on that?
- Tarun Arora:** So we are already operating in markets like UAE, Uganda, Bangladesh, Sri Lanka. We already expanded to Saudi Arabia, we have opened Myanmar this month, so we have already got another 3 or 4 lined up. In last the 2 -3 months we have opened-up Saudi and Myanmar to be more specific. We fairly have a distribution-led business plans for each of these markets. Only issue it will take time because you need to register, then you need to grow it. It is a Greenfield thing so you have to go step-by-step and build it.
- Ajay Thakur:** Secondly on the new product development side, any new product that you were looking at or any other extensions or variants which you are looking at kind of entering or if you can share any details on that front?
- Tarun Arora:** In next 2 quarters each of our three products categories will have at least one launch in each. I have spelled out Tulsi Turmeric face wash as a re-launch which is planned. There is innovation in Sugar free, as new molecule which we intent to launch as well as in Nutralite also we are looking at launches focused on the retail segment.
- Moderator:** Thank you. As there are no further question, I would now like to hand the conference over to Mr. Tarun Arora for closing comments. Over to you sir.



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Tarun Arora: Thank you everyone and look forward to talking to you over the next quarter.

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