"Zydus Wellness Limited 3QFY22 Post Results Analyst Conference Call Hosted by Ambit Capital Private Limited"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Zydus Wellness Limited 3QFY22 Post Results Analyst Conference Call hosted by Ambit Capital Private Limited. 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 for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Alok Shah from Ambit Capital. Thank you and over to you, Sir.

Alok Shah: Thank you Zaid. Good evening everyone, Good Morning to the people joining in from the Western part of the world and on behalf of Ambit Capital, I would like to invite you all for the 3QFY22 earnings call of Zydus Wellness. From the management side, we have Dr. Sharvil Patel, Chairman; Mr. Ganesh Nayak, Director; Mr. Tarun Arora, CEO; Mr. Umesh Parikh, CFO; Mr. Nitin Parekh, CFO from Cadila Healthcare; and Mr. Vishal Gor, Senior Vice President, Corporate Finance, Cadila Healthcare Limited. Without further ado, I would like to hand over the call to Mr. Tarun Arora for his opening remarks and then we can go ahead and open the Q&A session. Over to you, Sir.

Tarun Arora: Good afternoon and welcome to the post-results teleconference of Zydus Wellness Limited for 3QFY22. As Alok has already introduced the participants, I will move onto the details. During 3Q, our company posted a year-on-year growth of 2.3% on net sales. The lower sales growth is largely due to two reasons. First due to lower growth on a high base during previous year comparable period, which was accentuated by slowdown in rural growth. Secondly, as we are implementing a continuous replenishment process internally as a part of integrated business planning tool, we have reduced inventory both internally as well as in the credit channel. This would help us to operate with leaner inventory and better availability of fresh stocks to the consumers. As the country and the FMCG industry is reeling under the impact of inflation in the prices of key raw materials and packing materials, the company continued to face the pressure on gross margins. To mitigate the impact, the company has taken two rounds of price increases during the last two quarters, which will help the company improve gross margins in the coming quarters. As the third wave of COVID has hit India during the last half of current quarter with a very sharp rise in cases with State specific curfew and timing restrictions imposed, the company was quick on implementing the learnings from previous COVID waves and is in a better position to tackle the supply chain and other operational channels.

Due to COVID, there was a disruption in the non-essential category, however, essential products like Sugar Free, Complan, and Nutralite helped the company to stay on course. We continue to support the online sales through the third wave as we have seen higher demand on these platforms. Going forward, post the third wave as things return closer to normal, we would plan to enhance our direct distribution by another one lakh outlets. The company has been taking several measures to safeguard its workforce from the effect of pandemic. The company adopted hybrid model of working giving freedom to employee to work from home in these times. Let me take you through the highlights of the consolidated financial performance of Quarter-3 Financial Year 2021-22. During the third quarter of Financial Year 2021-22, our total income from operations grew by 1.7% to ₹ 3881 million. EBITDA was down by 34.8% year-on-year to ₹ 323 million. PBT before exceptional items was down by 36.7% year-on-year to ₹ 227 million. PBT after exceptional items was up by 1205.7% year-on-year to ₹ 227 million. Net profit was up by 1239.1% year-on-year at ₹ 233 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 shares of our brands during the quarter. To narrate a few, on the Glucon D front, during the quarter gone by, Glucon D ImmunoVolt continued to deliver steady business while core business delivered flat growth.

On the Complan front, the Complan relaunch was supported with its new campaign, “Ummido Se Age Badhne Ka Plan”, which communicated the key benefits of the brand 2X faster growth and improvement in memory and concentration. This was amplified by 360-degree media campaign on TV, digital, impact properties and influencers across the country. The relaunch was also supported by consumer promotion to establish maintain growth association with the brand and generate trial. On sweetness front, Sugar Free brand continues to air its new thematic communication, “Fitness ka Pehla Kadam”, through TV and digital media in gross markets. Sugar Lite grew at a high double digit during the quarter across all channels supported by consumer promos and TVC. On the personal care front, Everyuth brand continued to grow at a good double digit supported by TV campaigns on scrub portfolio and new body lotions range. On the dairy and spread category front, Nutralite brand delivered yet another quarter with good double-digit growth. The Nutralite Doodh Shakti probiotic butter spread and Nutralite choco spread were continued to be supported with TV, digital and print media campaigns.

As per the MAT December ’21 report of Nielsen and IQVIA, Glucon-D has maintained its number one position with a market share of 58.1% in the glucose powder category. Complan has a market share of 5.2% in the health food drink category. Sugar Free has maintained its number one position with a market share of 96.0% in the sugar substitute category, which is an increase of 104 basis points over the same period last year. Nycil has maintained its number one position with a market share of 34.0% in the prickly heat powder category. Everyuth scrub has maintained its number one position with a market share of 39.2% in the facial scrub category, which is an increase of 448 basis points over the same period last year. Everyuth peel off has maintained its number one position with the market share of 76.4% in the peel off category. Everyuth brand is at number five with a market share of 6.5% in the overall facial cream segment as well. As we speak, we have completed three years of acquisition of Heinz India Private Limited. Over the last three years, despite losing sales in critical months for two consecutive years due to COVID, we have consolidated and rolled our market shares across categories, launched multiple innovations, doubled direct distribution made significant stride in growing our business ahead of the category in both online and offline organized, reduced cost to serve. We have simplified the organization leading to exceeding our synergies and targets. The biggest challenge which we face is the recent inflationary pressures across commodities affecting our margins. With the actions in place, we should be able to overcome these challenges with the ongoing Quarter-4 of financial year. The country is witnessing downward trend in the COVID cases and which will have a positive impact on the consumer demand sentiments going ahead.

This will help the company to protect the sales of summer season quarters standing across January 2022 to June 2022. Thank you and we will now start the Q&A. Over to Alok for the Q&A.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks, my first question is on Complan, so what would be your long-term target for distribution scale up, you have done one lakh more distribution since acquisition, but what would be your three-year target? Second in the last three years, how has the market share been in Complan, you mentioned current market share but how has it been versus three years back?

Tarun Arora: Let me answer the distribution at two or three levels, so first of all Complan, yes, when we acquired, it was about 4.3 lakh outlets. We have crossed 5.7 lakh to be precise as reported by Nielsen, my view is 8 to 9 lakhs is what we would aspire, but that will follow as the brand grows. I think this was basically catching up to the fair size of our brand. Rest of the things will also have to follow. We are also focusing on driving direct distribution, which will help us our entities and quality of distribution making all our products available. We started with 2.5 lakh direct distribution, each of the businesses before acquisition. We have crossed the 5 lakh. Our vision for the direct distribution in the next three to four year is to cross a million, which is suitable for our size and portfolio for which over next few quarters, we are looking at adding another 100,000 outlets. This will obviously have a ripple effect on Complan distribution also, so that is answering the Complan distribution piece. Second, your question on market share, at aggregated level Complan market share for last year has been in the range of 5.5, it has slightly reduced. This year we are at 5.2, I think there is a drop of 15 to 20 basis points over the same period at MAT level, but this is also a function of multiple segments that Complan has, so there has been a little bit of it but largely it is in the same zone.

Abneesh Roy: Two follow ups Sir, on double digit sales growth in Complan, do you have confidence next three years if there is no very serious wave three, you expect double digit CAGR in Complan next three years? On the NPD launch, Complan Nutri-Gro, how differentiated is it, is it a big NPD or is it one of those smaller NPDs?

Tarun Arora: Our aspiration for Complan has to have a double-digit growth. We have seen the category operating at 5% to 7%, so that is the challenge and our wish list is to grow faster than the category and that is why we believe it can do that. Our focus and priority will be on a volume-led getting new consumers and if led by some of the leaders later in the category who have been reducing prices if we have to act, we will act, so at a volume level, our clear aspiration is to be a double-digit growth trajectory over next three years, and we believe our actions are in place or will follow it through. As far as extensions are concerned, Nutri-Gro is clearly differentiated and a superior formulation vis-à-vis the competition. It is a higher level of proteins and the top players in the segment for toddlers. Also has a better mix of proteins, which is more suitable for our toddler closer to the mother's milk inspired from the mother's milk, so we have the right formulation. It is going to be a little bit of slow burn because, the route we have taken is a healthcare professional and the COVID has certainly impacted healthcare professional reach out for a lot of consumers, so it will have a slow burn, but we have a differentiated offering and we believe we have a good journey ahead with Complan Nutri-Gro.

Sharvil Patel: Two more points to what Tarun alluded to, one is as we said that Complan has definitely differentiated the Nutri-Gro product which will go through the medical fraternity first and we believe it will definitely be this year with the normalcy coming back, we can see a big jump in terms of our revenue for that. It will definitely become one of the large brands in that category where we are trying to highlight. The second part with respect to, can we see a Complan double digit growth, one thing that we have definitely seen is with the better proposition that the formulation offers versus the competition, already in the modern format and other format which are more of the regularized format and which are growing, we have seen a double digit market share there versus our single 5% market share in the overall market, so I think if everything goes well and if we do right things in terms of science and also making sure that we give the right proposition which is higher protein and higher better content of protein, we can definitely see double digit growth being driven by this product.

Abneesh Roy: One last follow up on Complan, so in FMCG, there is a threshold market share in any category before which your profitability is really there, in your case mid-single digit kind of market share plus three years, the market share has not really moved much, so is it profitable and at what level market share aspiration would be there given mid-single digit market share is quite low in FMCG, there are fixed costs, advertising spends?

Tarun Arora: It is profitable and I think there are two ways to look at it. We do not talk about it, but really speaking this category is sizeable. In fact Nielsen still underreports it, but Nielsen number is Rs 6500 crores and if I give you a high level three segments, so there is a Toddler two to six yrs, then there is seven to 15 yrs kids, which is large play for Complan and key competitors, and then there is the adult space which is again fragmented women and adult and there are new players coming in. Now, the mid-level of the market which is 75% where we have the main play, I think standalone will be a 8% play and this is a sizeable category. I do not think we can generalize all these parts from there and this is a profitable brand, and we are building State by State strategy and we are seeing some traction on that, so I think it is above that threshold to confirm to you and profitability is quite okay.

Moderator: Thank you very much. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Good Evening Dr. Sharvil, Tarun, and the team, two questions taking from the previous participants question, this high science or what we say that added nutrition and you did mention that the category size is Rs.6500 crore, how big is this category in terms of added nutrition and maybe if you can say that what is the growth rates which are there in this category as an industry?

Tarun Arora: We mean the overall Rs 6500 crores category is growing as per the last, the Nielsen numbers which I had in November was about 1.5% to 2% for two years CAGR, last year is growing at

5% to 7%, for Rs 6500. The different segments are growing at a differential rate, but last year has grown by about 5%-6%.

Shirish Pardeshi: I got that Tarun, what I was simply saying that the adult nutrition?

Tarun Arora: The adult nutrition is growing at a much faster pace, about I think on a CAGR basis it will be about 7 to 8% versus 1.5% that I talked about on the overall category, so it is growing much faster. Toddler space in last five to eight years has grown much faster, last one or two years, the numbers have dropped that also because this whole toddlers have a healthcare professional angle to it and access to the healthcare professional has really got reduced especially even for the kids because of the fear, so that category has been under pressure. The category has also been in a negative space in the last couple of years.

Shirish Pardeshi: My second question is that if we have grown only just 2% on a YoY basis, which category or subsegment has declined on a YoY basis, you did mention that some products has a higher base, but if you can just give a little more color, where we are seeing the decline?

Tarun Arora: Actually two reasons as I explained to you, on a primary sales basis, growth was largely led by Everyuth and Nutralite because we have also reduced the inventory as I explained to you.

Sharvil Patel: I think majority also, is Complan which I think will correct from coming quarters onwards, but Complan definitely had a challenge in the earlier quarters, and also some of the inventory related to the seasonal products which we need to clear for fresh billing also related to that challenge.

Shirish Pardeshi: I got that Sir, my follow up on that you did mention in the beginning that there was inventory correction which happened, but at what level we are comfortable in terms of inventory correction, is largely it is done, it is behind, or there is furthermore correction which will happen because the last two quarters we have been saying that there is automation which is going to be taking place?

Tarun Arora: We have done inventory correction both on internal numbers where we have reduced almost by seven days and as well as with the distributors. Now, we may not need to do anything substantial or anything specific going on. This also got necessitated given that we have to built up for this season, so we had to better to act now than later and that is one of the things, so we have largely done is my belief.

Sharvil Patel: I think what has happened for us is the inventory correction has been more than the other years, because this year we expected a normal season, but April, the second wave, took us all by surprise and it was even worse than the last 2020, so I think that is the reason we had a little bit higher correction, but I think that is a one-off and we do not believe that from FY '23, we would see those kind of corrections.

Shirish Pardeshi: My last question is on the international, aspirationally you have said in the presentation that you want to grow to Rs 100 crores next year, just little more deeper which country, what products, and what is the opportunity which you would try to get, I mean Rs 100 crore in so many countries is what you have shown is still looking less number, but I want to get little more deeper inside, which all products we are exporting and how the growth or maybe which are the countries which are topping, because you did mention that top five markets contributing 80% of the business?

Tarun Arora: Our aspirations are much larger, our aspirations are that it can be 8% to 10% of our business in next three to four years, Rs 100 crores is something we should be able to cross in next one year, and therefore, I would say that would be our execution plan for me and the Management team to ensure we cross that milestone, so it is managing the portfolio and we have a portfolio brand and we have a portfolio country. Fortunately, there are some countries which are clearly emerging as more promising and are showing a stronger depth, so those five countries constitute a larger portion of business. Sugar Free and Complan are also showing a better promise in these markets, so they constitute a major portion of our portfolio, and therefore, will allow for should I say extensions and going deeper and wider in these markets, that is broad thought on this. First of all, there are countries we have just established our subsidiary in Bangladesh. Bangladesh is clearly a country of interest to us and we believe, we have an exponential growth opportunity in that and we will be investing behind that starting with maybe setting up a third-party manufacturing line as well to support that initiative. We have also seen Middle East responding very well and Nigeria responding very well for us. There is New Zealand which is a little far away, but has been doing okay for us, so these are some of the countries which constitute this, but Bangladesh, Nigeria, Middle East more so of the Eastern part of the Middle East if I were to say the UAE side, I think those are the geographies which are looking for stronger response, wider portfolio, and getting deeper, and we have extensions planned. We have new launch and extensions planned by end of this quarter itself coming through.

Sharvil Patel: I think to what Tarun also said, our mid-term plan is to get that 8% to 10% of our revenues from export, which was insignificant for a period of time. I think at least our five year plus vision is to definitely create a Rs 1000 crore export international business and I think it is sort of making sure we start off well with our first milestone and as we are prepared for that larger opportunity, we will definitely discuss that as we prepare the strategy for that, but currently we hope that about first half in the first few years we believe we should target a 8% to 10% kind of market of overall Zydus Wellness business in the exports over the next three to four years.

Shirish Pardeshi: Just one last follow up on that, you have mentioned just now that there is a third-party manufacturing which we are looking at establishing in GCC and New Zealand, what is the thought process behind this and which are products which we are seeing will have the better set of having this manufacturing outside?

Tarun Arora: These are largely Complan production places that we are using in GCC as well as New Zealand and we are setting one in Bangladesh, partnering with somebody to set it up in Bangladesh. We will add more products as we go along.

Sharvil Patel: So we already have this manufacturing other than Bangladesh already done, we are just going to Bangladesh another additional country now.

Moderator: Thank you. The next question is from the line of Kapil from Edelweiss. Please go ahead.

Kapil: Sir, our Nutralite sales have been growing well over the last few quarters, so I believe these new launches mayonnaise, choco spread and even now ghee must be shaping up this growth, so what are our aspirations here and how big this portfolio can become, Nutralite?

Tarun Arora: Nutralite is now coming together with the convergence of what was actually a byproduct business of Heinz plus our own spread, so we have creating a brand which will have a larger play in both dairy as well as spread. In dairy we are leveraging our existing capability of the Aligarh plant where we source milk from 25,000 farmers and we use it for Complan. Also Nutralite helps very well building to our value added, so in dairy our wish list is to play only in the value-added products, so the way we see it is we will rather be in ghee or butter or maybe some other new dairy-based spreads we could evaluate which we are working on. Mayonnaise and chocolate early days, but we are seeing good traction on mayonnaise, more so in the food service space, so all these will go across both in retail as well as food service and the way we are carving out is that a new route to market retail will merge with our rest of the business and the Nutralite sales team will focus largely on the food service and we will widen our portfolio. Standalone it is due to convergence; the brand looks almost twice the size of what it was but largely it is from the convergence of two coming together under one umbrella of Nutralite. We are also seeing good traction on the spread in last few quarters as well as mayonnaise and in the food service space. Ghee is also building up and butter is also building up steadily. I think this brand can be our sizeable portion of our portfolio be in the top three-four brands for us.

Sharvil Patel: If I can add to what Tarun says in terms of our strategy and plan, definitely with Nutralite being expanded into adding value added products from dairy side also, I think we see tremendous potential for this brand. This brand definitely has a potential to be the largest in terms of sales for the organization over the next few years with the traction that is going through. I think with the right segmentation that we have done on the professional range, the HoReCa food services and separating it from the retail side, which is very different. I think all of that will also help in terms of the strategy in terms of how to move the brand forward in this segments and also very importantly what we have realized is that many of these products will form part of the daily requirement or daily household needs from the brand Nutralite point of view in terms of consumption, so I think once we execute all of this, it can be sizeable in terms of revenue growth for the organization, and once it achieves a certain size and definitely it can be one of the largest brands for the company. I think the profitability will improve over that period.

Kapil: My next question is in your investor presentation where you have mentioned breakup of your channel mix, this others contribution is quite significant that almost one-fourth of the overall pie, so which products would be in getting supplied through this channel and how are the margins stacked up here as compared to other channels?

Tarun Arora: So if I were to give you a sense about the one-third of that is in food service HoReCa, therefore, it is largely Nutralite, little bit of Sugar Free, but that is one-third Nutralite. Another one-third would be Government channels, which is basically CSD, CPC etc. where the margins again are in line with our retail channel and there is little bit of other things that add up, but mainly these are two key drivers of the others

Kapil: So apart from Nutralite it would be other products like Complan and Glucon-D also or how it would be like other products would also be there?

Tarun Arora: In the food service HoReCa, what it constitutes is the Nutralite brand Sugar Free. Nutralite will have some bit of ghee and butter as well. Government channel has all the brands, which is Complan, ghee, and Sugar Free all the brands, so it is CSD, CPC channel. Most of the margins in Government channel are in sync with the margins we earn in the retail, little bit here and there some brands are little higher, some are little lower but largely in sync with the others.

Moderator: Thank you very much. The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: I have a couple of questions, one is in Nycil what is the market share because in the presentation somewhere we have mentioned as 37%, somewhere it is mentioned as 34%, in our press release it is mentioned as 34%, so is it 34% or 37%?

Tarun Arora: So volume share is 37.4%, value share is 34%, so there is a gap in value and volume and in the presentation we have explained, we have moved from 29.1% to 37.4%. Our focus has been recruiting new consumers through volume led initiatives. One of the things we have realized is that maybe the opportunity to price up exists, and therefore, there is a gap between value and volume share and we will try to work towards closing this gap in the next coming quarters.

Nilesh Shah: Thanks, second is on the export side, which are the products or which are our brands which are doing relatively better, I mean we probably export all our products, all our brands, so is there any specific product or brand which is doing better for us in the exports market?

Tarun Arora: So 90% of our business is between Complan and Sugar Free and both are meeting or exceeding their targets. Sugar Free comprises Sugar Free base brand as in the sweeteners as well as the chocolates which we sell in Middle East and now some markets are the markets as well with Sugar Free franchise and Complan, and both have been meeting and exceeding the numbers. We are hoping that we will be able to add on some of the brands in the portfolio. We do some seeing opportunities where Everyuth is doing better and has an opportunity in Bangladesh. We are taking some of the other products as Nutralite in some markets, but the flagship for us remains between these two.

Nilesh Shah: Lastly on margins given that we are approaching a couple of quarters which essentially of course are important quarters and last year in the same quarters, we had operating margins or EBITDA margins of about 24%, given that the business environment is a bit sluggish for us and we are facing headwinds in terms of inflationary cost pressures, do you think we should be able to get to that 24% operating margins for the upcoming quarters or that looks a bit of a challenge for now?

Tarun Arora: I will give my point of view, in my opinion I think we have a little bit of higher operating leverage in Quarter-4, Quarter-1 because 60% of our planned sales typically comes from this quarter and much higher portion of our margins come because the cost structures remaining same, it delivers a higher profitability, so I personally believe we have taken actions that we had to because our pain area has been gross margins trigger inflation. We have taken action in terms of price increases, so unless there is a mix issue or product mix or some other external factors, I largely believe we have a good shot at meeting or exceeding our EBITDA margins in the coming two quarters which are very, very crucial for us, could deliver our each financial year's numbers.

Sharvil Patel: Let me clarify, other brands, Complan has definitely faced challenges. Other brands have been very steady and I think this year what we will see in the Quarter-4 and Quarter-1 is last two years we were disrupted because of COVID and brands like Nycil and Glucon-D obviously could not do their regular business. I think that will be a big upside this year because we had a very big loss of days in the last two years. We have at least on the margin side good margin structure on those two brands and we have covered for some that either through price increase or buying of raw material, so I think if everything goes well in terms of our plan, I think Quarter-4 or only Quarter-1 will be very important driven by obviously these two brands, which have obviously struggled last two years because of COVID.

Moderator: Thank you very much. The next question is from the line of Praveen Sahay from Edelweiss Financials. Please go ahead.

Praveen Sahay: Thank you for taking my question and thank you for a detailed presentation, so my question is as you have mentioned in the presentation for double digit growth in profitability led by innovation, so my question is in the past company has launched new products across segments, is it possible to share any directional, how much of the sales generated from especially specific from the innovative new product you had launched in the past?

Tarun Arora: Products launched in last three years have contributed to close to 2.5%-3% of our sales, our wish list is to be five, so we are building towards five, we started at a lower level. Once we integrated the business, so we still have a path to grow. Now the innovations that we have launched, we launched a slurry of innovations in last financial year. Two or three of them will not see forward, we have dropped them. Some of them have good potential to grow and therefore, our priority right now is to build on innovations that we already have in the marketplace to take them to the logical conclusion and grow them faster, and we believe some of them are really good to go and have enough grounded. Going forward, we will be looking at probably three to four launches in a year, not more than one or two max launches in a quarter and build around those in a sizeable manner, so my wish list is that we should cross 5% to 6% of our business coming from products launch in last three to four years and that would give us that, we are not just launching products but we are seeing enough momentum in the following years as well may be if we get there, we can be more ambitious as well, but I think it is also raising the bar constantly. I think there is some journey ahead to improve our innovation potential as well.

Praveen Sahay: These innovative new products have a higher margin as compared of existing ones?

Tarun Arora: They are largely in the same zone; it varies from product to product. Sometimes they could be even higher. If I were to look at some of the examples like we launched body lotions in the last one, they are largely in sync with the Everyuth overall category maybe few percentage points lower to start with, but we are also as we went down learning curve in procurement and manufacturing, we have seen that some of these products also we get better.

Sharvil Patel: Tarun, from whatever we have seen majority of them will have same or better margins.

Praveen Sahay: Especially on two or three product you mentioned in the presentation one is ImmunoVolt which is around 28% of market share, so can you give some color on how big the market size is and competition is there?

Tarun Arora: It is very small, we are looking at widening our used cases, so there are some players already in that space but the category was growing at a small pace earlier and that is why we can be happy about 28% in a space which is probably between Rs 80 to 100 crores, but the point is we grow this space and grow it size ably will be most important for us, and that is really what we will be looking at building on.

Praveen Sahay: In the Nycil as you had mentioned about the 37% of the volume market share, does it also include your own product which you launched in the Nycil category like Body Mist and all?

Tarun Arora: No, Mist is not included in that, but Mist is hardly anything because we launched in March and April-May we had wave 2, we could not get much value for it so, I mean if I added, it will not change anything substantially.

Moderator: Thank you. The next question is from the line of Akash Shah from UTI Asset Management. Please go ahead.

Akash Shah: Thank you very much for the opportunity, I would just like to ask what is the contribution of Sugar Lite to overall sales maybe for FY '21 and this quarter?

Tarun Arora: At last trailing three quarters YTD level I would say it is operating at about 7% to 8% of Sugar Free and it is growing much faster.

Akash Shah: Thank you and similar number for international business, what is the contribution to overall sales maybe nine months FY '22?

Tarun Arora: Last trailing quarter, it will be about 3.5%.

Akash Shah: What would be the gross debt as of December 2021?

Umesh Parikh: Gross debt is Rs 315 crores.

Moderator: Thank you. The next question is from the line of Alok Shah from Ambit Capital. Please go ahead.

Alok Shah: Sir, thank you for this opportunity, I wanted to check your thought process on how do you plan your investments in building brands and this is especially because Zydus is the market leader in most of the categories except the HFD so does some brands take precedence over others and which would be those brands, which can be sort of like power brand for you at this point in time?

Tarun Arora: For our size and I believe we are at a size where we have not had to take a call one brand versus the other or prioritise one brand versus the other. If you look at the presentation that we have shared on the past three years and our journey forward, each of the brand has a good double digit growth potential, and therefore, it is not a situation where I had some cash cow sitting that I will milk it and not build on it, some brands maybe delivering, some investors or some stakeholders may feel that they have more potential, but largely if you look at the potential of each of the brands, each one has sufficient room for growth in penetration. There is a use case, which appeals to a large set of consumers, and therefore, there is a growth opportunity. It is just to solve for each of the brand is different and their margin profiles and the approach is very different, so far we have been able to optimize our needs for each of the brands without having to take some hard call. The hard calls of prioritizing one over the other comes only at the time of innovation, which typically again I look at three levels. One is the incremental innovation which the brand will pay for. There are platform innovations, which need a little bit more money, but only for a one or two years and there are breakthrough on a large innovations which we believe have a longer play and we need some habit changing and will probably need investments a little harder and a longer break even, a good example will be Sugar Lite, so we will in a given point of time try to not take more than one odd big innovation, but most of the other innovations, we will have to balance within brand target, so we are kind of so far been able to balance it, but we do for example have some thoughts in the pipeline, so we will balance it out, but largely I think most of the brands I feel we are sufficiently resourced to drive our growth. Being the leader, it also becomes that much harder if there are many people, so it cuts both ways. One, if you are alone, yes you have the disproportionate share, you have a pricing power, but it also limits your opportunity of how you can grow the brand at a faster pace which multiple players together by investments, so this is our kind of challenge we face, but I think we are well resourced and we are doing whatever it takes for the each for the brands.

Sharvil Patel: If I can add to what Tarun said, I think it is two things right, one is because we are market leaders in majority of the segments, there are two options for us to increase the opportunity size. One is to have more use cases for brands like Sugar Free and Everyuth and some others need to create more use cases and then somewhere is we are not participating in certain segments of the brand, so in terms of Complan, right. We are only present in toddlers and certain other segment, we are not in the adult segment, so I think we have to look at segments and see where we are missing in terms of the brand and largely when we look at our spends, it is a mother brand concept that we follow, so when we are doing I think there is a rub over effect on the overall brand when you are doing some kind of promotional activities, so looking at both of those things is how we are trying to take a call when we are talking about new introductions. Going forward, one is because of COVID also and other thing I think the number of new introduction will need to be limited and few more impactful launches will make more sense to do as we move forward in this coming year.

Alok Shah: My second question was on the distribution, so post the acquisition we have of course seen the benefit of distribution expansion, any quantification that whether all your portfolio is now able to seamlessly move in the new distribution, so maybe it is a depth versus breadth right, so where would we be on that front now?

Tarun Arora: Distribution I think a lot has been said in terms of our outlet reach, which is more than doubled. Our number of towns we have gone up by almost one-and-a-half times. We are focusing, expanding more stores as we go forward both in urban as well as rural, so we believe we have some distance to go, but we will have to be balanced because growth and distribution have to go in and distribution has to be, expansion has to be ahead of what the current situation is to pave the path for the future growth. I think we have been able to access all the sub-channels because our brand portfolio is such that all the sub-channels play out whether it is grocers, the pharma, the cosmetics, the food stores, and standalones. One of our key focus right now is to drive our range productivity across this portfolio and that is really the initiative post expansion has been, so how do we increase our range, and therefore, we are using the measures in terms of measuring those as well as our salesforce automation is also helping us track this and better use of data to address where the gaps are and keep working at it. We have assortment plan by sub-channels, States etc., that helps us making a product better available at the right place.

Alok Shah: Got it, basically what I was essentially alluding to is that now it is Glucon-D, you are able to reach new distribution areas, are you been able to push your other brands also in that new outlet that you have got through the Glucon-D and if yes to what extent, from our six brands to what extent we would be able to reach?

Tarun Arora: A good example is Everyuth. Everyuth is seeing the last three quarters, I think in the wave two like all brands and it being non-essential, it got very badly impacted in April and May, but post that it has come back so strongly and we have seen high double digit growth across months. . Actually it impacts all brands, even within Glucon-D, it is not just about Glucon-D being large and therefore it is driving, our ability to place some of the products like ImmunoVolt was existing earlier also. When we relaunched the ImmunoVolt with the larger distribution, we have been able to get our way through, so it is not just the big brand, but there are SKUs within brand which are important and strategic in nature, we are able to push through those as well, so that is the benefit of having a better direct distribution, wish list is to cross a million in the next couple of years.

Alok Shah: Lastly, one bookkeeping question, what will be the blended price hike that we would have taken at the portfolio level and now in line with the current inflationary scenario, do we think that most of the price hikes required are taken and have you taken a pause at this point in time?

Umesh Parikh: We will take a pause at this time, we have taken the price hike even during the December and earlier prior to that quarter, we have also taken one more price hike, so I think this is now paused for the price hike. If required and if inflationary pressure continues, then we will take the call at that time.

Tarun Arora: So what Umesh is explaining is the price hike taken in December to take care of the cost for this quarter, which is in operations, we have covered ourselves for our focus of the costs.

Moderator: Thank you. The next question is from the line of Nirman, a private investor. Please go ahead.

Nirman: Hi Sharvil, Tarun, this is Nirman here, it is a real pleasure to talk to you guys after a long time, my question is regarding future strategy, so we have got a good portfolio branch, we have got a good team, of course we have got our hands full with all the different initiatives in each of the brands and hopefully, over time with Sugar Lite and Nutralite contributing more to the business, the business is already go to be throwing of above Rs 300 crores of free cash flow which will hopefully continue to increase, so while we are executing on all these fronts, strategically are we also looking at deploying that money in terms of inorganic expansion, do we have any thoughts there?

Tarun Arora: On the inorganic right now our focus is to look at more bolt on and fitting into our portfolio kind of approach where we are looking at products which fit in to our wish list both from personal care, but more importantly if something fits in food and nutrition will be important. We are also looking at some of the key market international acquisitions and we will be looking at those, we are conscious of that.

Sharvil Patel: I think to that point and to what Tarun said is right, one is definitely on the nutrition side we believe area of protein related products are very critical and especially with the movement that you see on the e-commerce on certain new types of products, I think we are seeing that as an opportunity area to acquire something and build an e-commerce as well as from an e-commerce to a direct distribution play, and we look at brands that we could acquire or businesses or looking at making sure that there are better gross margins, so that we do not want to buy something that is lower on gross margins. Also building an international business is an important area which we can think of doing over the next two-three years, so any areas on that we would be looking to see if we could acquire, so I think those are the two immediate ones. Beyond that I think currently as Tarun as said internally we still believe we have a lot of opportunity to grow these mother brands, so I think the focus will be to make sure that we do so, but we will keep our eyes open for any opportunity to acquire.

Moderator: Thank you. The next question is from the line of Akash Shah from UTI Asset Management. Please go ahead.

Akash Shah: Thank you for the follow-up opportunity, I just would like to ask are we planning to enter any or does the Management team have any thoughts on entering let us say adjacent categories over let us say next two-three years or maybe five years down the line, just any thoughts there, this is just coming from, we are planning to expand our international business but certainly there is a lot of scope in domestic business, so any thoughts there?

Tarun Arora: Let me say this that we believe domestic has enough scope and our existing brands have enough scope. We will be looking at core businesses of each of these brands to grow because we believe there is enough potential. There are some adjacencies within these brands, which are possible which have potential and which will fit in very well with our portfolio and we will look at growing them through innovation from an expansion point of view, so that is really our primary focus. Even as international, we are seeing it as an extension of the same thing, we learn from each other and pull this together. There is enough option to grow on that. The bolt-on acquisition is only to fit in and give us a quick progression in the spaces that we would like to be, that is largely how we are looking at it.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Alok Shah for closing remarks. Over to you, Sir.

Alok Shah: Thank you. On behalf of Ambit Capital, we would like to thank the Management of Zydus Wellness for giving us this opportunity to host the call and to all the participants for taking time out for the call. Thank you.

Moderator: Thank you very much members of the Management. Ladies and Gentlemen, on behalf of Ambit Capital, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.