



**“Zydus Wellness Limited Q2 FY ‘18 Post Results
Conference Call”**

November 13, 2017



MANAGEMENT: **MR. TARUN ARORA – COO AND WHOLE-TIME
DIRECTOR, ZYDUS WELLNESS LIMITED
DR. SHARVIL PATEL – CHAIRMAN, ZYDUS WELLNESS
LIMITED
MR. GANESH NAYAK – DIRECTOR, ZYDUS WELLNESS
LIMITED
MR. AMIT JAIN – CFO, ZYDUS WELLNESS LIMITED
MR. TUSHAR SHROFF – SENIOR VICE PRESIDENT
(CORPORATE FINANCE), ZYDUS WELLNESS LIMITED
MR. VISHAL GOR – VICE PRESIDENT (CORPORATE
FINANCE), CADILA HEALTHCARE**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Zydus Wellness Limited Q2 FY '18 Post Results Conference Call. 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 call, please signal 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. Tarun Arora, COO and Whole-Time Director, Zydus Wellness Limited. Thank you and over to you, Sir.

Tarun Arora: Good Evening and Welcome to the post result teleconference of Zydus Wellness Limited for Quarter-2 Financial Year 2017-18. We have with us Dr. Sharvil Patel – Chairman; Mr. Ganesh Nayak – Director; Mr. Amit Jain – CFO; Mr. Tushar Shroff – Senior Vice President (Corporate Finance); and Mr. Vishal Gor – Vice President (Corporate Finance) with Cadila Healthcare. With the GST transition challenges settling down, the trade channels are getting back to normal and consumer off-takes have improved in domestic markets. As a result, we have witnessed a good double-digit revenue growth during the second quarter of Financial Year 2017-18. Our net sales on GST adjusted basis have increased by 11.5% for the quarter. As you are aware that due to change in accounting treatment post the implementation of GST, sales, income from operations are now required to be disclosed net of GST, hence reported net revenue growth of 9.9% for Quarter-2 Financial Year 2017-18 is not comparable with Quarter-2 Financial Year 2016-17.

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. Coming to the consolidated financial performance of Quarter-2 Financial Year 2017-18, our total income from operations has increased by 11.2% year-on-year to 120 crores on a GST adjusted basis. Our gross margins have increased by 230 basis points and now stood at 69.1%. The expansion in the gross margins was primarily driven by favorable prices of key input materials. Our earnings before interest, depreciation, and tax has gone up by 14.8% year on year to Rs. 350.3 million as a result EBITDA margin as a percentage of total income from operations increased by 130 basis points and stood at 28.4%. Profit before tax was up by 11.6% to Rs. 408.3 million. Net profit was up by 13% to Rs. 362.2 million. With that, let me share some of the highlights of the operations for the quarter gone by.

On the Sugar Free front, during the quarter we continued our focus on strengthening consumer connect and building awareness through a first of its kind YouTube based web series, The Sweet Breakup in which the renowned TV personality Chef, Kunal Kapur, food enthusiasts, Rocky and Mayur use Sugar Free to prepare famous local sweet dishes across the country. To further drive the growth of Sugar Free Green, we continued with influence base program on digital platforms combined with sampling price-generation activities. Going forward, our focus will be driving the category growth to sustain investments behind the brand. On the Everyuth front, during the quarter, we have witnessed strong growth rates across all segments of Everyuth. To build the awareness of our newly launched Neem Papaya Scrub, a new TV campaign was launched in August '17. To support this Tulsi Turmeric Face Wash and to drive the growth of Everyuth Face

Wash various TV and digital campaigns were carried out. On the Nutralite front, Nutralite has continued its strong volume growth during the quarter. We have used digital media innovatively to build awareness about Nutralite in our campaign *Khane Mein Twist* on Facebook, celebrity chef, Sanjeev Kapoor gave a healthy twist to the recipes requested by consumers and we shared recipe videos.

We have also associated with Shilpa Shetty to share healthy recipes on Nutralite on Shilpa Shetty's digital assets. Going forward, we intend to increase our investments in digital space to complement conventional touch points. As per MAT September '17 report of Nielsen, the Sugar Free substitute category has grown by 15%, Sugar Free has maintained its number one position with the market share of 94% which is an increase of 10 basis points over the same period last year. The scrub category has grown by 11.3%, Everyuth scrub has maintained its number one position with the market share of 32.4% which is an increase of 110 basis points over same period last year. The peel off mask category has grown by 17.1%. Everyuth peel off mask has maintained its number one position with the market share of 37.7%. GST led issues are settling down, we expect this growth momentum to continue in this financial year. We are optimistic of our new launches which should be backed by necessary investments to help us further improve our growth rates. Thank you and we will start the Q&A session now.

- Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.
- Kaustubh Pawaskar:** Sir, in your last conference call you mentioned that the chemist channel will take some time to revive from the GST-led disruption, so can you provide just your view on the same, how has been the recovery and whether the recovery was much better than what you anticipated during the quarter?
- Tarun Arora:** The chemist channel has recovered fairly well though not fully and we are hopeful that by the end of October, November and December quarter we should be fully on track.
- Kaustubh Pawaskar:** Sir, can you just quantify like 75% to 80% of chemist channel is back in trade or it is just 60% to 70% of the channel?
- Tarun Arora:** Hard to guess, but let me put a number to it 80% to 90% we are reasonably on track.
- Kaustubh Pawaskar:** Sir, my second question is on the Sugar Free Stevia, can you just guide on how the performance is and how is the acceptance issue?
- Tarun Arora:** Sugar Free Green has been ahead of all the internal milestones that we have kept, so we are quite bullish on Sugar Free Green which is a Stevia -based formulation, so we are looking forward to building it further.

- Kaustubh Pawaskar:** What was the category growth for Nutralite, how the category has grown or how the brand has performed, because strong volume growth is something we have been listening for last two quarters, but if you could just give some idea how the category has grown or what kind of growth you have got during the quarter?
- Tarun Arora:** We do not have any syndicated data which is worth sharing, so we have to rely more on our internal numbers and the industry estimates, so industry estimates do not give us a growth numbers, we can get only the sizes. Our internal growths are looking reasonably robust at double-digit, so that is what we are sharing, beyond that brand wise growth we do not have.
- Moderator:** Thank you. The next question is from the line of Ankit Kanojia from Smart Sync Services. Please go ahead.
- Ankit Kanojia:** Sir, any other segment or product line or we looking at or we are just focusing on consolidating our position on the Sugar Free, Nutralite, and Everyuth?
- Tarun Arora:** We have three brands, we are extending these three brands itself into line extension into new spaces as we go along, so there will be new launches practically every next quarter with new categories coming in as well we are also evaluating categories beyond these brands as well, but we have share at more specific times, we believe there is enough capability to drive growth segment beyond the existing spaces.
- Ankit Kanojia:** Sir, the part of question would be in case of Sugar Free as we are already the market leader having more than 90% of shares, I think we have the responsibility to grow the market because there are not enough competition in this thing, so are we having any specific strategy which you would like to share with us how do you want to grow the market size over here?
- Tarun Arora:** We will share as and when these things come up, we are obviously working on this and we agree with you, it is our responsibility. I think Sugar Free Green is one such initiative which is focused on consumers who had existing concerns who trendsetter, so Sugar Free Green is focusing on recruiting new consumers into the category. There are few other things in the pipeline which we will share as and when they come up.
- Ankit Kanojia:** Sir, last question what do you think is the impact of GST in the medium to long term in your case?
- Tarun Arora:** GST is a positive thing both for the consumers as well as for the industry. It should help the overall economy growth and that is how we look at it.
- Moderator:** Thank you. We take the next question from the line of Ajay Thakur from Alder Capital. Please go ahead.
- Ajay Thakur:** Sir, I had this question on your international business where you have been expanding, can you give more colors on that front, how that is performing?

- Tarun Arora:** International business is on track, we are looking at disproportionate growths from international business, since it is very small, we do not report it right now. We believe once it is sizeable level that we will share those details, but just to give one highlight which we have seen is, first time in the last quarter launched Nutralite in the Middle East markets, so that is the first for us, it has gone through our cold chain, so we are expanding the range and we are expanding the number of markets we are addressing, so it is on track we are very bullish about it.
- Ajay Thakur:** Can we have some at least what quantum is it now, is it like 5 odd percent or is it less?
- Tarun Arora:** No, it is less than 2%, so it used to be negligible couple of years back and we hope to start touching 2% to 2.5% in the next couple of quarters is the routine and then we will take it 4% to 5%, so it is all organic and it is growing fast, but it is still very small.
- Ajay Thakur:** Lastly, in terms of the category growth, we have seen quite a bit of bounce back in the category growth, can you elaborate more on what is driving this category growth, is it some kind of activation that we ourselves are doing or is it also because of some competition which is trying to help us expand the market in a better way?
- Tarun Arora:** The category growth, we are working clearly most of our actions are focused on category growth. A good example would be Everyuth scrubs where we are a market leader at 31%, so most of our actions, most of our communications has been on consumers to look at why we should use scrub and Everyuth being the leader gets the fair share of it and that has really helped us expand the category and also approve our share within it. Similarly, peel off all our communication is focused on what is the benefit of peel offs and for Sugar Free, so wherever we are the leader or Nutralite, our focus has been on growing the category and I think some parts of it is responding and that is the reason we believe is resulting in to category expansions. We have supported it both from ATL as well as BTL level in terms of our activation on the ground as well on these.
- Moderator:** Thank you. We take the next question from the line of Sunder S. from Spark Capital. Please go ahead.
- Sunder S.:** Sir, my first question, sorry I just logged in a bit late, could you just give the category growth rates?
- Tarun Arora:** Sugar substitute category has grown by 15.1% on MAT September '17 basis. Scrub category has grown by 11.3% on the MAT September basis and peel off mass category has grown by 17.1% on a similar basis.
- Sunder S.:** Market share has remained fairly constant across the three?
- Tarun Arora:** More or less, we have seen an improvement in our shares in scrub and sugar free.

- Sunder S.:** There was an initiative which we had taken up few quarters back in terms of distribution re-jigging, so how is that actually playing out and is that leading to this category growth that we are seeing in this quarter?
- Tarun Arora:** Distribution initiative is now stable and delivering support for the brands, but a lot of work in terms of category expansion happens from a brand and activation point of view, distribution is obviously supporting it and it is happening across the channels both in terms of our ability to activate say modern trade or our distribution on general trade, everything is working on track.
- Sunder S.:** Current quarter's growth rate, high growth rate can be attributed to the activation that has been carried out?
- Tarun Arora:** Certainly, we believe consumer off-takes have now looking good on a sustained basis, we believe our activations and our distribution all are in place and we expect to sustain this momentum.
- Sunder S.:** Sir, just a question on this distribution network again, because we heard some other few FMCG companies that Pharma was under due stress because again when they had to take back re-stocking, they majorly went for drugs rather than the OTC products on the first call, once the GST got passed, so how has been the impact for you?
- Tarun Arora:** Yes, there has been bit of challenges initially, but we have seen it has come in close to normal at a fairly fast pace, some portion of that normalcy is still work in progress even the wholesale has been a bit of work in progress, but things are getting better. Our own executions are better, our retail focus is high and that is helping us overcome some of these challenges on the ground.
- Sunder S.:** What would be the approximate NT growth this particular quarter, Sir?
- Tarun Arora:** Non-trade growth track significantly higher than our overall growth and especially the new initiatives like Sugar Free Green and others typically grow at much faster pace than our overall growth.
- Sunder S.:** Any number that you can put behind Sugar Free Green?
- Tarun Arora:** No, we cannot, we do not share those numbers.
- Sunder S.:** Just confirmation, it has been pan India launch already, right?
- Tarun Arora:** Yes, it is a pan India launch.
- Moderator:** Thank you. We take the next question from the line of Monica Joshi from Hornbill Capital. Please go ahead.

- Monica Joshi:** Just a couple of questions, if you could elaborate a little on your channel mix, how it stands today?
- Tarun Arora:** Our channel mix is different for different brands, if I were to say Sugar Free is about 60% distribution of Pharma channels but 70% of off-takes, modern trade would be 10% to 12% remaining in between various other things you could look at, superstockist and grocers etc. Similarly, if I go to Everyuth we have a good mix of cosmetics and chemist. We do reasonably well through grocers as well, but opportunity to grow as our categories grow in these grocers as well. Nutralite, we have a mix growth across channels.
- Monica Joshi:** How much would HoReCa be in Nutralite?
- Tarun Arora:** HoReCa is a large term because the institutional business is about 70%, high-end HoReCa which we look at star hotels and catering that is still a smaller portion of that, but the mass channel is much bigger, food service is much bigger so we have sub-categorization, therefore, it will be hard to share those data, but it is 70% of institutional sales may be covering the large foodservice channel.
- Monica Joshi:** On Sugar Free, you mentioned a MAT growth of 15% for the industry, would you say this is probably one of the best growth rates you have had in the last couple of years for the category?
- Tarun Arora:** That is correct.
- Monica Joshi:** What could have driven the change here?
- Tarun Arora:** Like I mentioned earlier, I think we have put in fair amount of investments behind the brand and also activations in driving up the consumer off-takes.
- Monica Joshi:** Great, since you have gained market share, your growth would be slightly higher than that, is that correct, I mean you are the market, but whatever balance 8% somebody else has?
- Tarun Arora:** It is relative to last years, so internal and external you cannot directly correlate, but off-takes would have gone up, yes.
- Monica Joshi:** Just a bookkeeping accounting question here, there is a large increase in this current assets could you classify what this relates to?
- Amit Jain:** Those are tax credits.
- Monica Joshi:** Where does this come from because this does not seem to be in the March quarter?
- Amit Jain:** It was, we have actually units in Sikkim where we enjoy some tax benefits, and it is related to that.

- Monica Joshi:** Can you quantify this amount because I am just going back in the March annual numbers, this did not appear?
- Amit Jain:** That we can share separately.
- Monica Joshi:** Last question, on GST can you elaborate how the rates have impacted you especially after the revisions that we saw late last week?
- Tarun Arora:** We are still studying it and we will share once it is done, we are going through it, maybe in a day or two we will have because we just got this morning.
- Moderator:** Thank you. We take the next question from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.
- Kaustubh Pawaskar:** Just couple of more from my end, Sir, in Everyuth Peel Off we have seen that the market share now stands at about 87% and last quarter it was about 88%, so anything to read into this, is there competitive intensity too high or something like that?
- Tarun Arora:** The market growth has really grown very aggressively, we are also in line with market growth but the market has expanded and there are couple of other players who have also enjoyed the gain on the market size, so it is growing the pie and being shared by multi-players. It has been a very positive year for us in peel off.
- Kaustubh Pawaskar:** Sir, any update on Face Wash as a category for you for last few quarters you have been trying hard to sustain good growth in that, so any positive?
- Tarun Arora:** In this calendar year, we re-launched Tulsi turmeric face wash with a very improved formulation, with a better packaging and the whole Face Wash offering has been revamped and launched with a very strong support. We are seeing good growth internally. After almost few years, Nielsen has started reporting a positive growth for Everyuth Face Wash after reporting a degrowth, so we are clearly seeing a turnaround on Face Wash, we just intend to sustain it over a period of next few quarters, we are quite optimistic of how the Face Wash is shaping up, the portfolio.
- Moderator:** Thank you. We take the next question from the line of Tinkesh Punjabi from Taurus Mutual Fund. Please go ahead.
- Tinkesh Punjabi:** Sir, could you please quantify percentage of sales via e-commerce?
- Tarun Arora:** Right now it is very small, as we track it, it is less than 0.5% but we have put in a specialist in place we believe as the FMCG business through e-commerce grows, we will be ahead of the curve is how what we believe because for example product like Sugar Free are reasonably high ticket items in this space, so we will be able to go with the market.

- Tinkesh Punjabi:** Sir, a follow up question, do you see any kind of opportunity to manufacture products as a long-term associate partner for e-commerce players to roll out on a global level?
- Tarun Arora:** No, we are not working towards that.
- Tinkesh Punjabi:** Sir, company has done revamp and improved packaging with regard to various products, you have now two rigid packaging products you have opted for, and so could you share some benefits that you have?
- Tarun Arora:** We are focused more on natural, but if you want to get into a little bit more detail, it may be worthwhile to reach out to our investor cell and we can get into a little bit specific if you want to know into the products.
- Tinkesh Punjabi:** Sir, last question with regard to growth, what is the sustainable sales growth or internal aspiration you have ahead over the years not for quarters as such?
- Tarun Arora:** We are talking about the double digit growth, we are looking at improving our growth rates over next few quarters and I think that is where we can state.
- Tinkesh Punjabi:** In volume terms, right?
- Tarun Arora:** Yeah, we believe it is volume led new consumer recruitment led growth.
- Moderator:** Thank you. We take the next question from the line of Bhavesh Jain from Envision Capital. Please go ahead.
- Bhavesh Jain:** Sir, we were doing test marketing of ActiLife, any update on that?
- Tarun Arora:** None so far, when we are ready for relaunch of it, we will share.
- Bhavesh Jain:** Sir, the current gross margins are sustainable?
- Tarun Arora:** Yes, we believe they are sustainable.
- Bhavesh Jain:** Final question, on the cash and utilization of the same?
- Tarun Arora:** We normally have a policy of distributing one third for dividend, so that will continue and for balance it is reserved for M&A, so once there is an update we will come back to you.
- Moderator:** Thank you. We take the next question from the line of Sunder S. from Spark Capital. Please go ahead.
- Sunder S.:** Sir, I just wanted to know as to what has been our A&P strategy and what would be going forward?

- Tarun Arora:** A&P strategy, I think we have a sustained level of spends that we work with and we also look at what is the marketing task the team has in terms of building the awareness for the consumers and how much we can work around that, so those are things that we look at. We prefer to spend lot more consumer facing investments, both in terms of ATL which is the conventional media and lot of digital media, that is largely the broad approach we take. Our focus is to recruit new consumers, so that is one clear task we work with.
- Sunder S.:** Given that there has been more new launches and you indicated that activations have led to growth, would it be broadly different from a historical numbers in terms of upping the spend?
- Tarun Arora:** We may up the spends as we go along, so far within our portfolio strategy, we have been able to manage the spends at this level as and when the new innovations will require, we will up the spends in those quarters.
- Sunder S.:** What has been the comparable growth if you were to just take out the excise duty?
- Tarun Arora:** In my presentation, I had mentioned about 11.5% kind of comparable growth.
- Moderator:** Thank you very much. That was the last question in queue, I now hand the conference over to Mr. Tarun Arora for closing comments.
- Tarun Arora:** Thank you very much, we will see you next quarter.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Zydus Wellness Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.