

Q3 FY23 Earnings Presentation

February 02, 2023



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Zydus Wellness:
A leading
Consumer Wellness
Company in India



Operating environment- Overview



Financial performance – Q3FY23



Brand Highlights



The Road Ahead



**Operating Environment - Overview
&
Financial Performance**

**Zy⁺us
Wellness**

Operating environment sees slight improvement yet demand remains challenging....

01

High Inflation

Retail inflation stayed at elevated levels

02

Constrained Budgets

Rural consumers downtrading to minimize the impact of inflation in their household Budgets

03

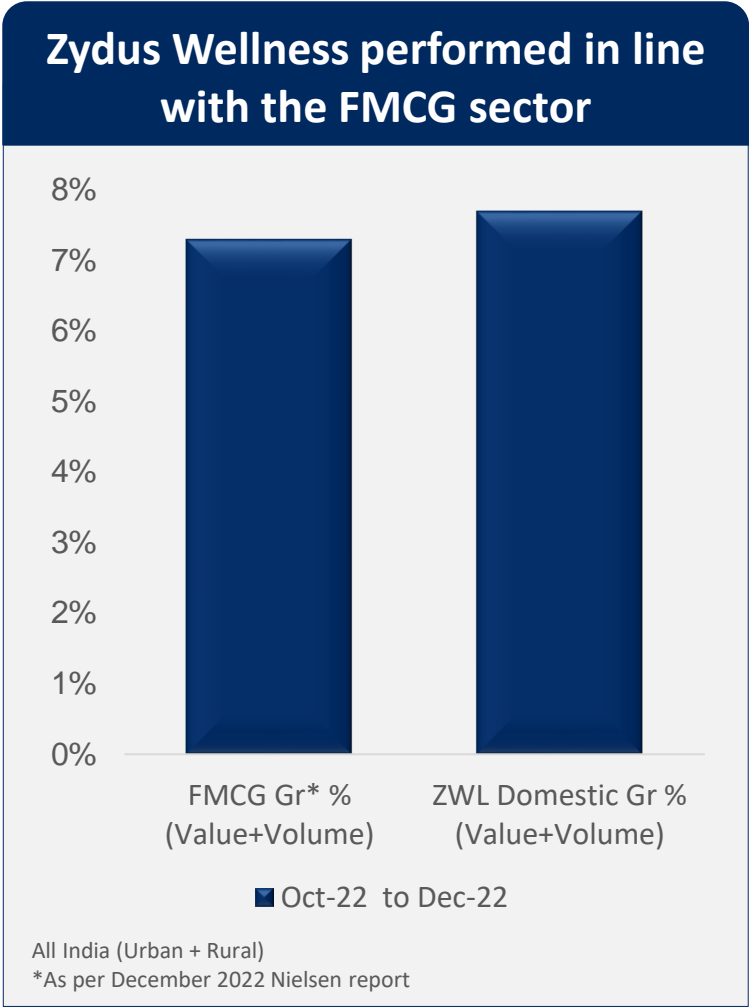
Weak Demand

Pickup in Rural Demand has been slower than urban areas
Consumer sentiment has gradually started to improve in urban areas

04

Lower Volume growth

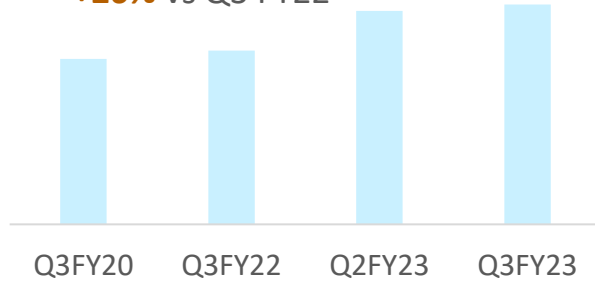
Volume growth was impacted



Inflation cooling down for some key inputs

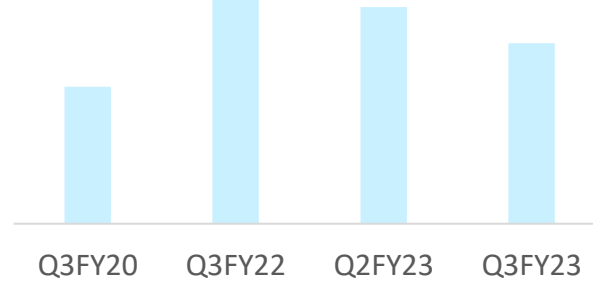
Milk

+33% vs Q3 FY20
+26% vs Q3 FY22



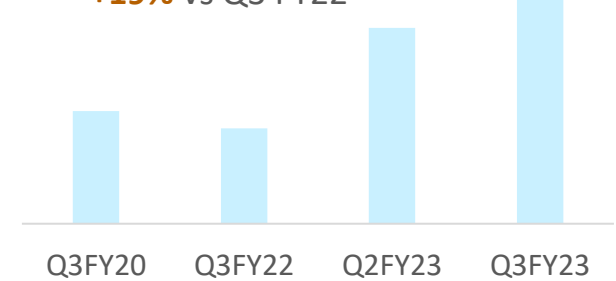
RPO*

+32% vs Q3 FY20
-20% vs Q3 FY22



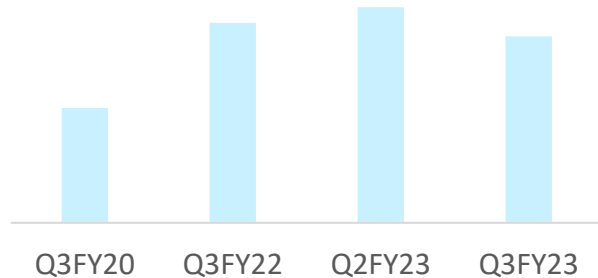
DMH**

+16% vs Q3 FY20
+19% vs Q3 FY22



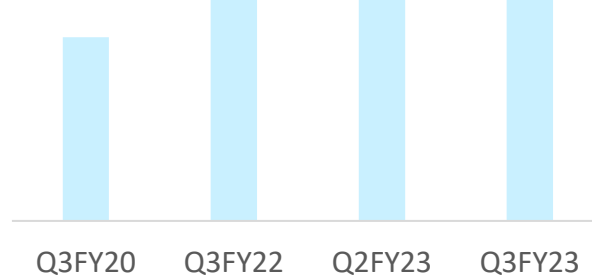
Aspartame

+62% vs Q3 FY20
-7% vs Q3 FY22



Diesel

+30% vs Q3 FY20
+6% vs Q3 FY22



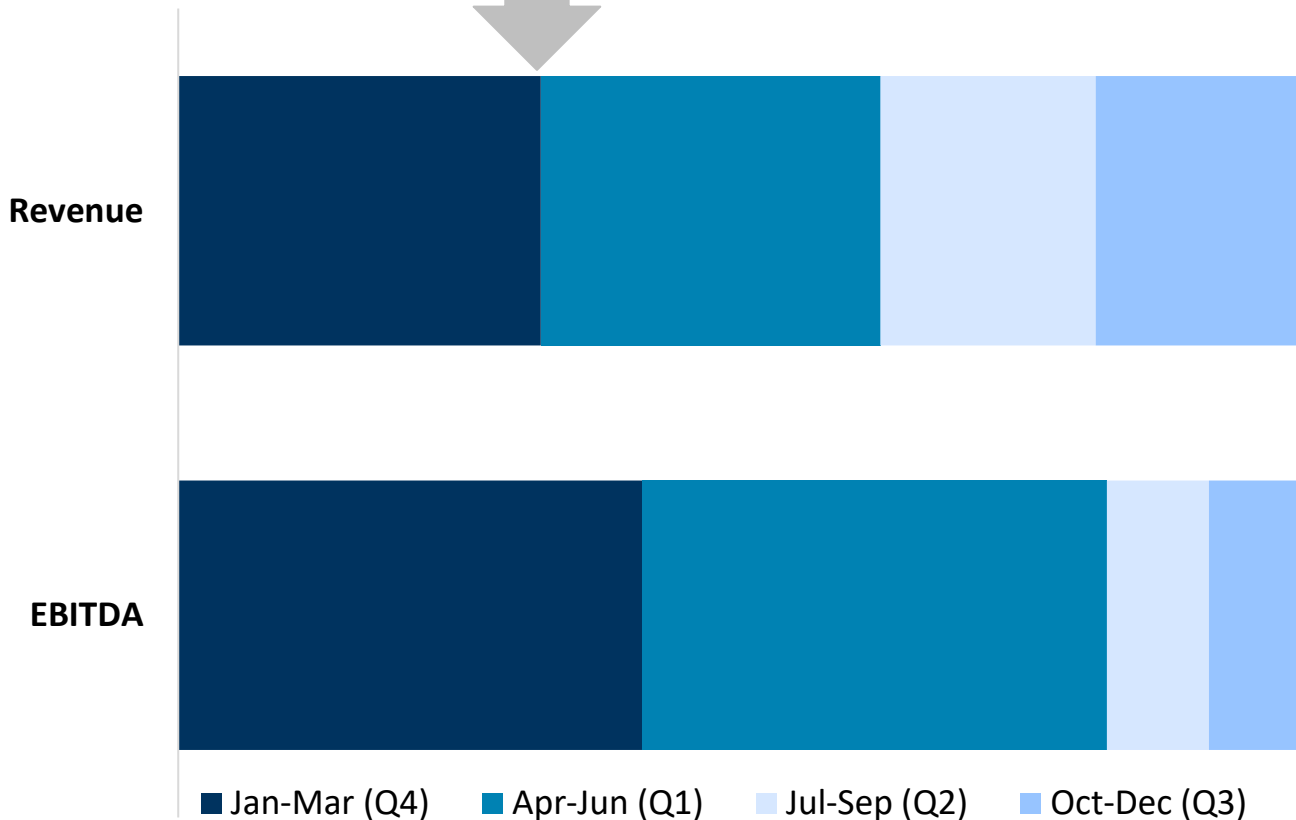
- Weakening of INR/USD
- Calibrated price increases are undertaken to absorb inflation without compromising on growth
- Gross Margins for non-milk based products going up sequentially
- Monitoring the environment and undertaking actions to mitigate the impact

*RPO- Refined Palm Oil

**DMH- Dextrose Monohydrate

Q3FY23 - Seasonally low-value quarter

January to June accounts for
~60% / 80% of annual Revenue /
EBITDA



Calculated on FY22 numbers

Initiatives to mitigate seasonality over the long term

- ✓ **Brand campaigns** driving daily relevance of category
- ✓ **Relaunch of Glucon-D** brand strengthening the “Energy” credential: Transitioning from Summer Product to Rehydration and Daily Exhaustion
- ✓ **Nycil** - Repositioned with new packaging to highlight “coolness factor” and brand campaigns highlighting “freshness”
- ✓ **Launch of new products like** Immunovolt, Nycil Body Mist and Everyuth Body Lotion to drive growth throughout the year

Q3 FY23 - Financial Performance



Revenue

Rs 4,130 mn

+7.3% YoY | +8.2% 3Y CAGR

Revenue growth in line with the FMCG industry growth for the quarter, largely driven by value



Gross Margin

Rs 1,823 mn

-2.7% YoY | +1.8% 3Y CAGR

Inflation cooling down across key inputs except milk and appropriate actions on price hike resulting into sequential improvement by 57 bps to 43.5%. GM down by 433 bps on Y-o-Y



EBITDA

Rs 282 mn

-12.7% YoY | -8.9% 3Y CAGR

EBITDA Margin was 6.8% declined by 154bps YoY, aided by better P&L control despite high inflation



PAT

Rs 196 mn

-16.1% YoY | +66.5% 3Y CAGR








PAT Margin declined by 130bps to 4.7%.

Brand Highlights

Zy⁺us
Wellness

Strengthening Brand leadership and demonstrating pricing power

Continued to gain market share in Glucon-D, Everyuth Scrub and Peel-off, Nycil
Complan market share loss moderated

										
Category	Glucose Powder	HFD	Sugar substitute	Blended Sugar	Prickly heat powder	*Facial cleansing	Scrub	Peel-off	Fat spread	Dairy
Mkt. Rank	1	5	1	NA	1	5	1	1	1#	NA
Mkt. Share %	59.9	4.5	95.8	NA	35.1	6.4	41.8	78.4	NA	NA
MS change YoY (in bps)	↑+161	↓-66	↔0	NA	↑+121	↔0	↑+160	↑+22	NA	NA
Price Index [^]	106	125	156	NA	102	NA	112	126	108	NA

Market share source: MAT December 2022 report as per Nielsen and IQVIA.

*Everyuth market rank 5 is at Total Facial cleansing segment which includes Face wash, Scrub, Peel-off, face masks

Market rank as per company estimate

[^] Pricing index vs leading competition brand – SKU as on 31st Jan 23

Leaders in 5 out of 6 categories



Strengthen “Energy” credential with new launches

- Category leading brand with 99% plus brand recall
- ~60% market share in the category



Strengthening core through Relaunch of the Brand

- Focused on scientifically proven claims on memory and concentration and enhanced chocolate taste
- 1 lakh stores added since acquisition



Replacing sugar in all forms of Consumptions

- India’s first low calorie sugar substitute with more than 95% market share
- Potential to be amongst top 3 global brands



Doubling each year after launch

- “Healthier Sugar” which is completely natural with 50% less calories than regular sugar
- Potential to be the next sizeable brand in sweeteners portfolio



Growing Faster than Market

- Growing faster than overall facial cleansing category
- Scrub Volume market share from 34.8% in 2018 to 41.8%*
- New launches in previous years – Body lotions and Aloe Gel



A Leader getting stronger

- Market leading brand with heritage of over 65 years
- Strengthening leadership with Volume market share from 29.6% in 2018 to 35.1%*



Building ‘Dairy + Spread’ portfolio

- Leveraged milk sourcing to expand dairy segment with Doodhshakti Ghee in retail and institutional channels and Pro-biotic Butter

*As per MAT December 2022 Nielsen report



Strengthening core through Relaunch of the Brand

- ❖ **Mid single digit YoY growth** in the quarter and **moderating market share loss** despite the persistence of category growth headwinds
- ❖ **Focusing on activation through kids.** Title sponsor of India's biggest school Quiz.
- ❖ Continued participation in **pouch and sachet segment** through launch of 450 gm pouch and 18 gm sachet nationally
- ❖ Market share stood at 4.5%* in the Health Food Drink (HFD) category



Strengthen "Energy" credential with new launches

- ❖ Being a non-seasonal quarter the brand had limited contribution to the business
- ❖ Brand continues to **maintains its number 1 position** with a value market share of 59.9%* in the Glucose powder category which is an increase of 161bps YoY



*As per MAT December 2022 Nielsen report

Quarterly Brand Performance– Everyuth and Nycil



Growing Faster than Market

- ❖ Continued consistent performance delivering good double digit sales growth on a 3 year CAGR basis and building market shares
- ❖ Scrub continues to maintain its leadership position with market share of 41.8 percent, +160bps YoY* in the facial scrub category
- ❖ Peel off has maintained its number one position with a market share of 78.4%*, +22bps YoY in the Peel off category
- ❖ Continuous support by TV and digital campaigns across its core portfolio including new body lotions range



Seasonally low value quarter

- ❖ Being a non-seasonal quarter the brand has limited contribution to the business
- ❖ Maintained its number one position with a market share of 35.1%* in the Prickly heat powder category





Strong growth across the range of products

- ❖ **Double-digit growth** in the quarter with 3Y CAGR remaining at healthy high single digit
- ❖ **DoodhShakti** dairy portfolio, which includes Butter, spreads & Ghee, has *delivered strong performance*
- ❖ **Introduction of new variants like Tub in Butter and Ceka in professional ghee** to improve user experience and convenience



Offtake turnaround continues to get stronger

- ❖ **Sugar Free** witnessed a revival with double digit offtakes growth indicating a turnaround at consumer front
- ❖ **Sweeteners portfolio** 3Y revenue CAGR remained at **high single digit**
- ❖ **Sugarlite continues to gain traction** in the whitespaces with aggressive promotion via multimedia approach of digital, television, print and outdoor
- ❖ Sugar Free brand continues to maintain leadership with a market share of 95.8 percent*



*Market share source: MAT December 2022 report of IQVIA

Campaigns during the quarter (1/3)



Sweet Butter Toast
स्वीट बटर टोस्ट



CHOCOLATE BESAN BURFI
चॉकलेट बेसन बर्फी



Chana Bruschetta
चना ब्रूसकेता



VEGETABLE BAKARWADI
वेजिटेबल बाकरवडी



Lite Bites

Cheesy Garlic Paneer by Chef Sanjeev Kapoor



It's yummy, it's tasty, and it supports immunity



Delicious Taste - Made with creamy Milk

Campaigns and Launches during the quarter (2/3)

Launch of new packaging



500g Tub for
DoodhShakti
Butter



Prof. Ghee now
in Ceka Pack as
well

Print Campaign for Doodhshakti Butter Spread

Campaigns during the quarter (3/3)

Build Awareness through Print & Branding



DelhiTimes htcity

Front Page AD's
Supplementary

METRO Branding at key
consumer touchpoints

Influencers to drive WOM & Recommendation



Integrating Sugarlite along
with recipes made by
Chefs & Digital Mother
Influencers



In school
activation to
engage kids



SF Green Sampling
with Tata Tea Gold



Sugar free campaign
on Disney Hotstar

The Road Ahead

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Three Pillars to drive growth – staying on course



Accelerate Growth of Core Brands

Innovations to focus on portfolio diversification and expansion with an aim to recruit new customer

Differentiated propositions supported by strong GTM



Build International Presence

Build scale in international business by focusing on SAARC, MEA and SEA and suitable innovations to grow them further

Enter new markets with relevant offering



Significantly Grow Scale

Open to bolt-on acquisitions at the right time

Growing the customer base with increased penetration

The building blocks

Category Building

- Volume led focus
- Recruit new consumers
- Innovation to contemporize/
differentiate the offerings
- Build online-first portfolio



Leading Route to Market

- Plan to enhance distribution infra to 3Mn+ reach and 1 Mn direct coverage over next 3 years
- Invest in capabilities; for converging Offline & Online trade
- Engage shoppers at multiple touch points



Digital backbone to decision making

- Digitizing the whole value chain – Sourcing to fulfillment
- In next phase work with downstream and upstream partners for data sharing
- Build capability around predictive analysis



Inorganic play for gap filling

- Proactively look for Bolt-on acquisitions
- Focus on international opportunities in top geographies of interest



Building Route to market to adapt shifting channel mix



Organized Trade

- **Channel mix shift towards MT+Ecom** from 17.6% (YTD FY22) to 20.3% (YTD FY23). Potential to increase to 25% in next few years
- E-com continuing good growth, contributing to 7.5% of sales in YTD FY23 (vs 6.6% same period prev. year)
- Leverage changing shopper behaviour by investing in building stronger presence and efficient spends on visibility and Promotions



Traditional Trade

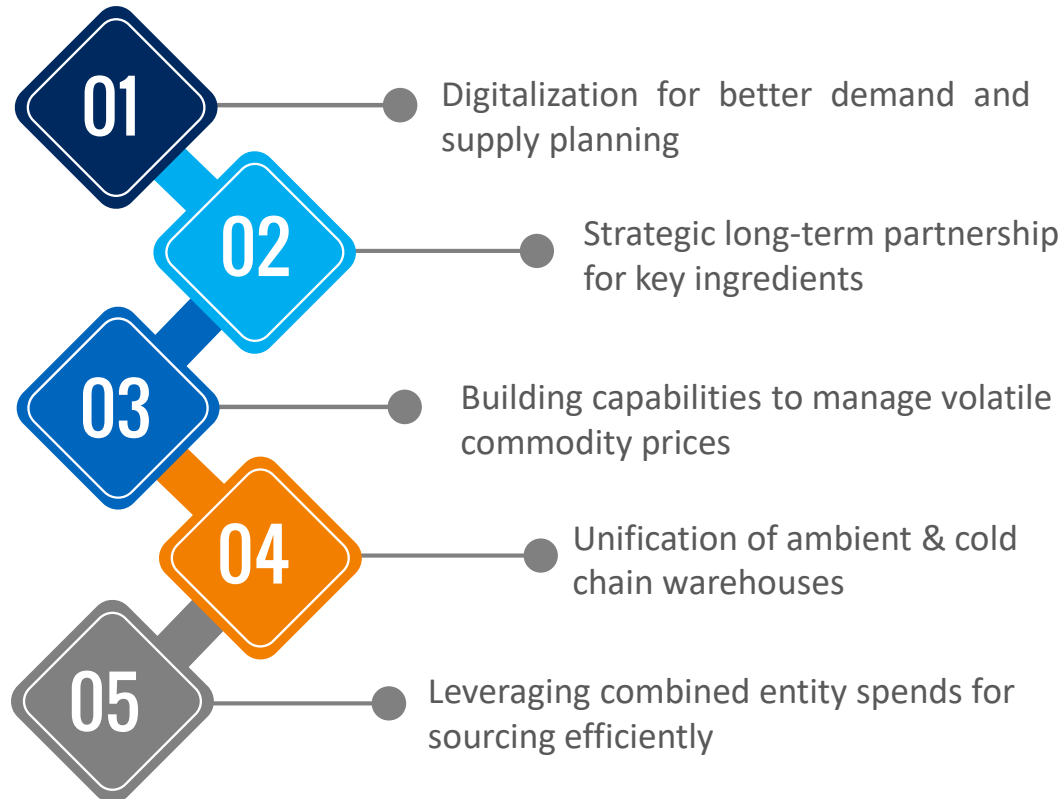
- **Direct reach ~6 lakh stores** expansion across sub channels
- **Plan to reach 1 million stores directly in next 3 years**
- **Overall availability of our products crossing 2.5 million stores as reported by Nielsen**, with equal split between urban and rural distribution.



Building future ready capabilities in S&D

- **Implementing Integrated Business Planning (IBP) tool** to automate the demand planning, supply planning and sales & operations planning (S&OP) resulting in better availability and reduction in inventory
- **Digitization till last mile sales**
- **Reduced cost to serve** through distributor disintermediation in organized trade

Building an Efficient Supply Chain



Reorganizing Manufacturing Operations

Revisited manufacturing footprint focusing on redistributing the manufacturing of same product in different geographies.

Ceased operations of Sitarganj plant with the objective of having leaner operations closer to the consumers

Reduced operational costs

Reduced variable cost through automation

Digitization across Value Chain

Appendix

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Financials Summary – Q3FY23

INR Million	3Q FY22	3Q FY23	YoY Growth	3Y CAGR
Net Sales	3,849	4,130	7.3%	8.2%
Total Operating Income	3,881	4,156	7.1%	7.7%
Gross Contribution	1874	1,823	-2.7%	1.8%
<i>Gross Contribution Margin- (% of net sales)</i>	<i>47.9%</i>	<i>43.5%</i>	<i>-433bps</i>	
HR Cost	382	351	-8.1%	-1.9%
Advertisement Expenses	532	443	-16.8%	12.8%
Other Expenses	637	748	17.4%	3.4%
EBITDA	323	282	-12.7%	-8.9%
<i>EBITDA Margin</i>	<i>8.3%</i>	<i>6.8%</i>	<i>-154bps</i>	
PBT	227	193	-15.0%	268.9%
PBT (after Exceptional items)	227	193	-15.0%	154.6%
PAT	233	196	-16.1%	66.5%
<i>PAT Margin</i>	<i>6.0%</i>	<i>4.7%</i>	<i>-130bps</i>	
Adjusted PAT	233	196	-16.1%	30.2%
<i>Adjusted PAT Margin</i>	<i>6.0%</i>	<i>4.7%</i>	<i>-130bps</i>	

Financials Summary – 9MFY23

INR Million	9M FY22	9M FY23	YoY Growth	3Y CAGR
Net Sales	13,533	15,327	13.3%	7.0%
Total Operating Income	13,693	15,418	12.6%	6.4%
Gross Contribution	7,034	7,465	6.1%	1.0%
<i>Gross Contribution Margin-(% of net sales)</i>	<i>50.8%</i>	<i>48.1%</i>	<i>-268bps</i>	
HR Cost	1,235	1,238	0.3%	2.9%
Advertisement Expenses	1,699	1,921	13.1%	2.6%
Other Expenses	2,067	2,380	15.1%	3.1%
EBITDA	2,033	1,926	-5.3%	-3.8%
<i>EBITDA Margin</i>	<i>14.8%</i>	<i>12.5%</i>	<i>-235bps</i>	
PBT	1,746	1,674	-4.1%	18.3%
Exceptional items	-	29		-58.7%
PBT (after Exceptional items)	1,746	1,645	-5.8%	40.1%
PAT	1,756	1,650	-6.0%	31.5%
<i>PAT Margin</i>	<i>12.8%</i>	<i>10.7%</i>	<i>-212bps</i>	
Adjusted PAT	1,756	1,680	-4.3%	13.8%
<i>Adjusted PAT Margin</i>	<i>12.8%</i>	<i>10.9%</i>	<i>-193bps</i>	

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