



**“Zydus Wellness Limited Q1 FY-23 Post-Results
Conference Call”**

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MODERATOR: MR. ANIKET – ICICI SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '23 Earnings Conference Call of Zydus Wellness hosted by ICICI Securities. 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 an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniket from ICICI Securities. Thank you, and over to you, sir.

Aniket: Thanks. Hi, good evening. A warm welcome to you all on this call. At ICICI, it is our absolute pleasure to host the call for Zydus Wellness. From the management, we have with us Dr. Sharvil Patel – Chairman; Mr. Tarun Arora – Chief Executive Officer; and Mr. Ganesh Nayak – Director; and Mr. Umesh Parikh – Chief Financial Officer.

We will start with opening comments from Tarun sir, post which we will open it for questions. Thank you, and hand over to you, sir.

Tarun Arora: Thank you. I will start on this. Good evening, and welcome to the post results teleconference of Zydus Wellness Limited for quarter 1 financial year 2022-23. We have with us Dr. Sharvil Patel – Chairman, and Mr. Umesh Parikh, CFO.

Having been impacted by the pandemic for the two consecutive financial years during the peak of the summer season, the company this time around saw a normal quarter with timely arrival of summer. On the back of the strong distribution and marketing efforts, the company could also re-recruit the consumers for the summer heavy brands like Glucon-D and Nycil. As a result, these brands witnessed resurgence in demand clocking the strong double-digit growth. Though the inflation had been a concern until last quarter, we saw green shoots on inflation easing out on palm oil and packing materials prices towards the end of the first quarter. If the similar trend continues, it may give some respite in the coming quarter.

On a consolidated basis, the company has registered a strong growth of 17.8% on net sales, which includes volume growth of 10.3% during the first quarter of financial year. E-commerce channel continued its growth momentum during the quarter and is now contributing 6.5% of sales, which was at 5.9% for similar comparable period last year. Our gross margin as a percentage to net sales has sequentially improved by 352 basis points on the back of price increase, cost improvement measures and product mix. However, on a year-on-year basis, the gross margins dipped by 70 basis points due to inflationary pressure.

As a part of our endeavor to mitigate the risk and ensure business continuity and unprecedented situation, the company revisited its manufacturing footprint that focused on redistributing the manufacturing of same products in different geographies. With the objective of having leaner operations, which are closer to the consumers, which was one of the key objectives of Transformation 2.0, the company has ceased the operations of Sitarganj plant.

The company has incurred one-off expenditure of Rs. 29 million on account of the same during the first quarter. The current and recurring savings and operational costs on account of cessation of the Sitarganj plant will more than outweigh some more one-off expenses in the coming quarters.

The quarter also saw some significant milestones with overall availability of Zydus Wellness products crossing 2.5 million stores with equal split between urban and rural distribution. Also, our largest brand, Glucon-D crossed 60% market share milestone for the first time in several years at an MAT level as reported by Nielsen.

Let me take you through the highlights of the consolidated financial year or financial performance of the quarter 1 financial year 2022-23. During the first quarter of financial year 2022-23, our net sales grew by 17.8% to Rs. 6,930 million. Our total income from operations grew by 16.6% to Rs. 6,968 million. EBITDA grew by 5.5% year-on-year to Rs. 1,481 million. PBT before exceptional items grew by 6.9% year-on-year to Rs. 1,399 million. Reported net profit was up by 4.7% year-on-year at Rs. 1,370 million. Adjusted net profit before exceptional items was up by 7.0% year-on-year at Rs. 1,399 million.

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 increase market share of our brands during the quarter.

To narrate a few, on the Glucon-D front, as a market demand led by on-the-go consumers opened up, which was absent during the last two consecutive summer season, the brand witnessed a resultant shift in the demand, which was supported with strong media coverage with Pankaj Tripathi as endorser to drive daily relevance for energy drinks synergized with consumer activations.

We also launched 20 grams sachet as a pilot in select cities, which were supported through digital campaign. We continue to drive the growth of ImmunoVolt through the launch of a popular consumer variant of Kaccha Mango towards the end of first quarter. Glucon-D has maintained its number 1 position with a market share of 60.4% in the Glucose powder category, which is an increase of 203 basis points over the same period last year after MAT June 2022 report of Nielsen.

On the Complan front, the health food drinks category saw a continued slowdown, which is further compounded by down-trading to LUPs and lower-priced pouch packs. For Complan key packs are holding segment share, we have taken focused interventions on it increasing plain sachet and pouches along with activations to drive distribution, which show over next couple of quarter. We continue to support the brand with a superiority campaign, Pack Palto, Farak Dekho.

The brand through its campaign continued to build superiority of protein over competitors and urges mothers to turn the pack for having a tangible reason to buy. The campaign has witnessed

positive response to persuasion and consideration goes overall. The brand market share stood at 4.8% in the health foods drink category as per MAT June 2022 report of Nielsen.

So, moving on to sweeteners front. With a focus on category development, we continue to promote the stevia-based Sugar Free Green variant through thematic communication of Fitness Ka Pehla Kadam with celebrity, Katrina Kaif along with various social media digital initiatives for Sugar Free brand. The brand did not see growth during the first quarter due to high base of Covid wave 2, which was led by high diabetic consumption.

However, the brand witnessed healthy growth in distribution expanding to 497,000 outlets, which is an increase of 26,000 outlets over a similar period. The Sugar Free brand continues to maintain its leadership with a market share of 95.5% as per the MAT June 2022 report of IQVIA. On the back of Sugar Badlo, Health Badlo campaign and consumer offer initiatives, Sugarlite brand continue to do well during the quarter and drive double-digit growths.

Moving on to the personal care front. Everyuth brand witnessed yet another strong double-digit growth during the quarter. The brand was supported by TV and digital campaigns across its sub segments like face wash, scrubs and peel-offs. Everyuth Scrub has maintained its number one position with a market share of 41.8% in facial scrub category, which is an increase of 511 basis points over the same period last year.

Everyuth peel-off has maintained its number one position with a market share of 76% in the peel-off category. Everyuth Brand is at number 5 position with a market share of 6.6% at the overall facial cleaning segment level. The availability of Everyuth increased to 6.8 lakhs outlets from 6 lakhs for the same period in the previous year.

With a good onset of summer season Nycil brand has witnessed a strong comeback and registered a double-digit growth. The brand was supported with aggressive TV campaigns and on-ground activations to drive the demand. Nycil has maintained its #1 position with a market share of 34.2% in the prickly heat powder category with a volume market share of 37.6%. The availability improved by 16.5% to 1.67 million outlets.

On the dairy and spreads category front, Nutralite brand has registered yet another strong double-digit growth during the quarter gone by on year-on-year basis. Nutralite DoodhShakti dairy portfolio is also gaining good traction as we are expanding presence of Ghee in institutional channels through Nutralite DoodhShakti Professional Ghee.

With a normal monsoon within most parts of the country, we are hopeful that demand situation may improve and we will strive to support it on the back of efforts on the brand-led marketing initiatives, increased distribution reach and product innovation. Thank you and we will now start the Q&A. Over to the coordinator for Q&A.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kapil Jagasia from Edelweiss Financial Services. Please go ahead.

Kapil Jagasia: Sir, my first question is, could you provide some color on Everyuth facial scrub? So, here you have been garnering a higher market share for quite some quarters now. So, is there any change in strategy here or any new launches which are growing higher than the category, sir?

Tarun Arora: On the facial scrubs, actually, we being the leader we have focused on category development, and I think that is our initiative across. We have been able to push the category growths to a higher level over last couple of years, specifically, despite the challenges of Covid when category actually came down. And two or three things that are working specifically for us is, I think our large communication, our latest communication, which focuses on the need of scrub over and above the face washes supported by our strong distribution expansion brand has really helped us improve our shares.

Kapil Jagasia: So, it is more of related to the new product development and launches because of which the market share has been increasing? Also the lotions would be coming under this or it would be under Nycil?

Tarun Arora: No, body lotions are under Everyuth. They are reported separately. It is still an early stage for us to talk about it, but also the season will be in the following quarters when it becomes sizable in terms of contemplation.

Kapil Jagasia: Sir, my next question is on the Sugar Free category. So, over here, there has been kind of muted or probably degrowth in this quarter. So, is it because of some change in behavior after Covid towards health and hygiene product categories, something else that might be happening in this category? So, could you provide some color on this?

Tarun Arora: So, yes, I mean, Covid did see a disproportionate increase in consumption, especially during wave 1 and wave 2, where the numbers shot up substantially, and we built up a strong basis, especially for our pellets and Sugar Free Gold net business, which has a high usage amongst diabetics and some heavy users. I think that base has become a part of it, which we do see a certain whining of consumption.

We have also triangulated with the usage of diabetic products being under pressure because of our pharma parent. Having said this, we are continuing to build our distribution. Like I mentioned, we have increased our distribution by almost 5%, 6% to 26,000 outlets and our journey continues. We are also seeing Sugar Free Green, which is a natural variant, which is very important to our growth strategy so that we overcome the fear of artificial sweeteners if anyone has. And that has been building up very well across channels. So, we believe we will be able to overcome the current brunt the brand is facing in the last couple of quarters.

Sharvil Patel: So, Kapil, if I can add on to what Tarun said, right? I think the brand is still on a very strong fundamental. While we had a high increase in consumption because of COVID, we see certain decrease there, but more importantly, with the natural substitute of Sugar Free Green, we believe that this will create a great opportunity for the brand to significantly grow because it will remove many of the unwanted issues that generally people feel with substitutes. So, I think our strategy

is very much aligned towards building that and the Sugarlite brand as an adjacency, and we believe that would really expand our opportunity on this front.

Kapil Jagasia: And how big the Sugarlite brand would be as a category?

Tarun Arora: So, it is high single digits of the overall brand portfolio as a percentage of the overall brand portfolio.

Kapil Jagasia: And sir, for this quarter's slowdown in Sugar Free, is it specific to domestic markets or even the international markets are seeing this?

Tarun Arora: No slowdown in the international markets. Actually, we have launched an extension Sugar Free Delight Cookies. And international market slowdown is more to do with some of the challenges that we face, if at all, it is nothing to link to any brand related issue. So, it is reasonably good in terms of our demand for Sugar Free in international market.

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

Tejash Shah: Couple of questions from my side. So, first, our portfolio is relatively very discretionary in nature, which usually takes a beating in an inflationary environment. So, from that perspective, what we have seen in last 6 months, the inflationary scenario has been unprecedented. How would you read the current quarter performance? And how would you actually estimate or forecast coming quarters from a consumer demand perspective?

Tarun Arora: For what we have seen, I think the consumer demand has been under pressure, and we have seen it over the last couple of quarters, and you are right. We continue to see these challenges. I think some of our investments in brand building and very importantly, on the distribution expansion has really helped us overcome some of these challenges in the last quarter, and we believe that is the best part to overcome these challenges because these will be temporary in nature and eventually, the consumption will go up as the supply side of this country improves due to investments.

So, from that perspective, we may see some challenges continuing, but I think we believe, we should see some improvement. I will just share since you asked specifically, last quarter has seen because Glucon-D and Nycil have specifically a reasonable presence in rural, we have seen our rural growth being reasonably good as reported by Nielsen and our distribution also ramping up. So, I think there may be some improvement, which can be expected, but very hard to guess. Maybe another quarter of pain from an overall demand perspective, how will each of our categories play out, we still have time to see. But overall, I think the environment will stay a little bit sluggish market in my perspective, but category-to-category it will play out differently.

Tejash Shah: Sir, on Complan, there used to be some loss of market share and also position. So, if you can throw some light on what other measures that we are doing to regain market shares?

Tarun Arora: So, if I were to break down Complian, and I think it is very important for us, when we ourselves review this to deleverage the brand and from the spaces we operate, I think we are holding our segment share reasonably well in the large packs in the kids category, which is the bulk of the core of the category. The shift that we have been slow to respond to has been the low-priced pouches, which is almost like a price war and the sachets where we have been a reluctant participant because of the margin.

But having said that, I think we are doing interventions to participate in it. And with our focus on that, I think over the next 2 to 3 quarters, we should see some recovery there. And that is really the whole story. Otherwise, from a consumer perspective, our communications have been received well. The consumer scores in terms of consideration set is only getting stronger. So, we just have to address the shift in the category around LUPs and price led facts, which we are doing some interventions through our pack price architecture review so that our business model still remains.

Tejash Shah: Sir, but even with company's intervention, if I see market leader's growth also it was not very heartening. So, is it just that it is cannibalizing competition to lower price point? Or is it expanding category as well?

Tarun Arora: So, at the overall level, if I look at last 6 months, that category has been declining. Last 3 months, actually, category has declined by 4%. And the growth is coming only in the sachets and the large packs are declining. So, you are right in that sense, I mean, there are new people coming, but still the consumption levels are down. And I think at the overall level, the sachets have not been able to ignite category growth that one would have liked to see.

So, obviously, I think there are two routes to category expansion, it is my perspective. But I am only a small 5% player. A better way is to build the right reasons and invest behind nutrition rather pricing, but that is the route, which has been chosen. The results are still to be seen of category.

Sharvil Patel: So, I think, Tarun, if I can also add for Tejash certain points. I think as a strategy for Zydus Wellness, one thing that is very clear for us is that in Complian, we are not the market leaders, neither are we in the top 3 or 4 companies. So, I think what we as a strategy for Complian will be is to make sure we maintain or protect our market share and then do the right things as the leaders are doing or changing, we need to make sure we remain competitive.

I think the story for the organization has to be driven by the other brands where we are strong market leaders and where we see great opportunity in terms of also growth it can lead to profitable growth. So, I think the strategy will be that while we fall for Complian and Complian becomes an important product for us, the other businesses or brands will be the ones which will drive the value creation for the organization, and that is how we would focus our resources on.

Tejash Shah: Fair point. Well explained. But Dr. Patel, just one question and you answered that it is not the focus area. But if I just go back to our discussion 2 years back, there were many sub-segments,

white spaces, which were available in Complan and we with our group levels, both R&D capabilities and also the front-end distribution capabilities, there were white spaces which we wanted to plug in the portfolio. So, any thoughts on that? Or as of now, Complan itself is not the priority to make those level of impact?

Sharvil Patel:

Tejash, your point is right, and that opportunity we are not going to let go off. In fact, we did launch Complan Nutrigro in the toddler segment, which was a gap that we had, and that has been medically detailed through our pharmaceutical side of the business. And we do believe there is opportunity in the adult segment and the other segments where we are not present. And that we will slowly definitely build on.

So, the adjacencies to this category we are definitely going to pursue and build on. Obviously, in the last 2 years, because of Covid also, we did not have so much traction because new product introductions have been very difficult because of less contact with the medical practitioners and less detailing and other things. But we are again starting to see strong momentum there.

So, I think those things will definitely continue to be built in terms of adjacencies for this brand, how it can be further used. But as I said, overall, when we are looking at the business, we would still make our priorities, the other brands to drive the value growth and at the same time, protect Complan and continue to build on it. But that will be the two priorities.

Tejash Shah:

Yes. And sir, now looking at the inflation, is the worst behind us in terms of peak inflation? Or are you still seeing the coming quarters, we will see increased pressure on inflation? That is first. And second, are we planning any more pricing intervention in this quarter or coming quarters to tackle this?

Tarun Arora:

So, as of now, other than milk, most other products are either holding or probably seeing a little bit of dip. So, we are quite hopeful that the peak inflation is behind us, but that is coming from today's perspective. Now things change last 1-1.5 years, we have seen things changing very dramatically at a very short time. So, very hard to predict. But if I get to speak for today, I believe worst is behind us. And even if the environment holds, we will get better. At least sequentially, we will get better. We still have things to work on. And therefore, at the current prices, we are not planning any specific price interventions.

Tejash Shah:

And sir, any margin guidance you would like to work with for FY '23?

Tarun Arora:

So, if you are looking for operating margins, my limited view will be this that while we did discuss about a 20% journey there. But if you look at across all players, direct competitors or competitors in FMCG industry, everyone has lost 3 to 4 percentage points in their EBITDA margins. I think I would want to at least say that Zydus Wellness has done reasonably well to hold on to or almost being able to hold on to the operating margin.

We are keen to improve our margins, operating margins, but it will be a function of how the environment plays out. I had original 20%. I am not sure if we get there, but we are certainly hopeful of improvement of our operating margins if the environment stabilizes.

Tejash Shah: And Sure. And sir, last bookkeeping question. You used to give the size of the categories also. So, if you can give only 3 categories sizes trailing 12-month basis of Glucon-D, HFD and sugar substitute?

Tarun Arora: So, for trailing 12 months, HFDs have done about Rs. 6,750 crores, the glucose powder category has been about Rs. 900 crores, and the third, what it was?

Tejash Shah: Sir, Sugar Free.

Tarun Arora: Will be about Rs. 325 crores. Sugar substitute category, just to call it out, I think there has been some corrections they are doing because the database is handled between Nielsen and IQVIA. So, there may be some corrections they are working on, but that is what it is.

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

Alok Shah: Sir, my first question is, when you look at the strategies to re-recruit consumers back in Glucon-D and Nycil after a gap of about 2 years. So, is there a different plan that you are using now to re-recruit them versus what was the traditional route adopted previously? And also wanted to get a sense what will be the NPD pipeline that you plan to leverage specifically in Glucon-D and Nycil to sort of gain more consumers in the category? That is my first question.

Tarun Arora: Sure. When we are looking at Glucon-D and Nycil, I think typically, and this is a good example to share. Typically, the way this category works, for example, Glucon-D is that most of the consumption happens between February or March to about July, August. And therefore, our numbers, our primary numbers, reported numbers are largely concentrated between January and June.

And in this period of consumption, we typically see a household buys 1.5 packs average per household, whoever is buying and therefore, and they exit the category and they have to be re-recruited. And therefore, 2 years of gap actually reduced substantially the penetration levels of Glucon-D and similar numbers would create for Nycil. Our focus has been on two fronts. One, I think we have used Pankaj Tripathi as our brand ambassador. One of the things that we focused is that traditionally, we are focused only on the sun and summer-related heat and deprivation of energy.

We are saying that general tiredness and exhaustion also be included in this. And therefore, we used a mix of creative campaigns in terms of telling consumers that there are multiple parts, multiple reasons why you get exhausted and Glucon-D is your partner in recovery. We have also supported very strongly with a lot of local activity in the Hindi heartland of UP, Bihar. And

third, of course, something we have talked about is our direct distribution expansion that has happened over the last couple of years.

So, those are if I were to say high level 3 things that have really worked for us or is something we have used. Similarly in Nycil we had a campaign which is focused on clinically proven efficacy of Nycil and how it helps people to go outdoors. And that is a big theme for the kids these days, especially after COVID, and they are able to go outdoors and give them the confidence to overcome the prickly heat situation that they have with the increased distribution.

So, those are the ways that we have really focused ourselves. Strong TV and digital campaign supported by on-ground activation and an improved direct distribution. That is the mix that we have used on both these brands.

Alok Shah: Got it. And just a follow-up to that, in terms of the market highs reduction that we would have seen versus pre-Covid, so we would be back to around anywhere around 85%, 90% of the pre-Covid or still a little lower than that? What would be that number be?

Tarun Arora: So, my guess is the data will still come out in over the next 2 to 3 months. But my guess is we are between these 2 brands, we are almost in value terms similar level as the Covid of course, there is some value loss in the translation because of pricing, which I think will play out once we have the full data by end of this quarter in terms of the penetration in all levels. But value terms, we have recovered on all the 19 numbers.

Alok Shah: That is happy to know. My second question is on Everyuth brand. So, we are seeing this brand equity improve year after year. What could be the adjacencies that you can look at? So, while, of course, in the previous year, we have done little bit on the body lotion and Aloe Vera part. But parallelly, we see a lot of these B2C companies trying to do a bit more products on the face, sheets and few other things. Now of course, these categories are not prevalent in a couple of years back. So, the sizes could be small, but any adjacencies that really interest you and can really help Everyuth as a brand move into those adjacencies?

Tarun Arora: So, Alok, I think Everyuth is a brand which shows a very good promise, both from an equity point of view and the way consumers are lapping it up. I think our belief is to hold first within the spaces that we operate in, especially scrub, peel-off, I think there is a huge opportunity of growing the categories. And we have a single-minded focus on category development.

We have looked at a couple of adjacencies, which is the benefit segment of tan removal, body lotions and aloe vera gel, which we are building on, and I think there is enough room for them to grow. There are smaller segments like sheet masks and several other spaces, BB cream, CC cream, et cetera which a lot of these companies are trying.

We have them all. I mean, gulping these products is not such a big task, but the size of the price may be much smaller versus what we already have at hand and the momentum we have seen on the brand.

So, we are studying if we can just keep them if feeling the need to do that only on online space, et cetera. So, some of those valuations we are doing, but otherwise, we have a very single-minded focus to grow sizable within this. And I think as a skin care play, this can be very profitable and sizable game for us.

Alok Shah: Got it. Perfect. And just a bookkeeping one. Now that the Sitarganj plant has been ceased, any changes on the potential tax rate that we can see going into FY '24 or '25? Anything to call out specifically?

Tarun Arora: No, Sitarganj was already under the normal type design, and we do not see any change in the tax rate going forward. Our guidance given to you earlier continues, that we will be having a taxable income in the year 24-25.

Moderator: Thank you. The next question is from the line of Anand Venugopal from BMS Capital. Please go ahead.

Anand Venugopal: Just wanting to know in regard to this non-seasonal revenue, which you have in quarter 2 and quarter 3. FY '21-'22, quarter 2, quarter 3 revenues were around Rs. 724 crores and Rs. 772 crores in FY '21-'22. So, is there any plan to achieve that? And so for example, if non-seasonal products, are you trying to launch any more non-seasonal products as such to lead growth as such?

Tarun Arora: So, all our brands basically Complian, Sugar Free, Nutralite, Everyuth play a much larger role because quarter 4, quarter 1 is led by more Glucon-D and Nycil will get added. But within these, there are clearly plans to build on this. We have already launched, for example, under Nutralite, Nutralite DoodhShakti, under Everyuth body lotions, Complian and Sugar Free have their own agenda like Sugar Free Green has a specific agenda of growth. So, we have specific strategies to build on growth to drive for quarter 2, quarter 3.

Moderator: Thank you. The next question is from the line of Akash from UTI Mutual Fund. Please go ahead.

Akash: May I kindly ask you what is the volume CAGR over the last 3 years? I mean, Q1 FY '22 to Q1 FY '23?

Tarun Arora: So, we have an overall growth of about 4%, 4.5% over 3 years. And I think my estimate is between 3% to 3.5% would be volume base because initially first 1 or 2 years, we do not have any substantial value increase.

Akash: Sure. Thank you very much Sir. And so in FY '23 or maybe FY '24, which categories are expected to see new product launches or let us say, which categories would be given higher allocation towards advertisement spends or, let us say, new product launches?

Tarun Arora: So, FY '23, I think each of the brands have their own agendas in terms of investments. So, Glucon-D and Nycil typically get advertised mostly in the peak season, while brands like

Everyuth scrub or Sugar Free Green or Complian have all 4 quarters of more consistent advertising as we follow. Nutralite spends the lowest because it has a larger institutional exposure, and therefore, the more of the action happens on the ground from that perspective.

Akash: Yes. Sir, and in terms of new product launches, any categories that you wish to call out?

Tarun Arora: So, for the future, it is hard to give any guidance at this stage. But of course, from the recent launches. We want to strengthen body lotions, Nutralite DoodhShakti and Sugar Free Green to build up to a sizable level as we move forward. Even Sugarlite has the opportunity to continue build up.

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

Tejash Shah: A couple of follow-ups. Sir just wanted your insights on one of the building blocks that you have pulled out this leading route to market, so basically distribution expansion. Now this observation pertains not only to us, but also for industry that I am not sure that demonetization has anything to do with it. But post demonetization, the distribution expansion is actually not resulting in the revenue or the pre-demonetization thumb rule used to be from industry veterans that 10% increase in distribution used to lead to at least 3% increase in sales.

Now since last 4, 5 years, we are not seeing this equation holding on to even for industry are large, even for us and parallely, there are many more disruptions happening with the go-to-market strategy and then now B2B businesses, Udaan and Ajio. So, just wanted to understand, is there still a merit left in expanding distribution, direct distribution because it is not resulting and there are many more agencies or engines which are actually doing the same for us as a brand owner?

Tarun Arora: So, Tejas, it is a fair question, not just conceptual but business impact. I think, yes, you are right. It does not have a very linear relation and 10:3, certainly is not the existing. We have seen it in our business. I have seen it in several other businesses. The biggest benefit of direct distribution that we have seen is being able to drive the agenda of distribution that we believe.

I think one of the biggest change, even in the last 5 to 10 years and has nothing to do with just demonetization alone is the fact that clutter on the shelves of the retail. I think the number of SKUs have proliferated to 2x to 3x levels for a similar retailer like-for-like at a base minimum level in terms of number of SKUs that are coming in board.

And therefore, your ability to push through your new products, your critical products, which typically are small, but you want them to become bigger, is that much harder and you cannot rely on wholesale to do that job.

Wholesale is a democratic channel. It will sell what is anyway selling already faster. But my Sugar Free Green, I need to build it through my direct distribution efforts, just putting more

money on our wholesale and doing wholesale activation will not play that role. So, that is one reason why I need direct distribution. Also, the per dealer throughputs at a global level, if I were to say, simplistically put, because there is continued expansion of overall number of outlets.

So, per dealer throughput for each brand or each category is also reducing because organized trade, which used to be for me about 3 years back, about 12%, 13% has become 17%, 18%. So, my share of general trade has shrunk, but I still have to reach more outlets to do justice to it. So, it becomes more like an imperative to strategically build my business and therefore, I do not have an alternative if I want to have the right future. But the 10:3 obviously does not exist. And therefore, it is something that we will continue to build. But obviously, it is not that linear in terms of business outcomes, at least in short term. More medium term, yes.

Tejash Shah:

Sir second, you have also called out interestingly inorganic play the gap for filling. So, are we still on look out or we would like to actually settle down with what we have done so far on acquisition before we make a move or we are ready in your opinion to absorb more brands?

Tarun Arora:

Very simplistically put, we have our hands fold. We are focused very, very clearly focused on growth. If you look at most of our brands have a huge growth opportunity, whether it is Glucon-D or Nycil or a Sugar Free or Everyuth or Nutralite, even in Complian, we have a job to do, and in international market.

So, if you ask me, we are not in the need that I was, say, 4 years back, 5 years back that we needed to scale up using an acquisition. The role of acquisitions has substantially changed from then and now. Here, we are looking at bolt-on which will take me a longer time with a gap filling, which fit in into my current five broad spaces that we define. And they will help me move faster.

They need not be large there, but they can be sized not too small to take a disproportionate time, but they are good gap-filling ones. Or something in international markets, top 5, 6, 8 markets, which help me move at a faster pace. For example, Bangladesh, we have strong plans.

So, if I get something, it will help me move faster. So, these are more gap billing, more sharper specific M&A agenda that we will run. It will not be just for scale, which was a different need for me at that point of time. So, that is how we are looking at it.

Tejash Shah:

And sir, most of the initiatives that you spoke about means that they are employed even so building team, team building will be required. So, should we budget higher employee cost as a percentage of sales as we go along? Or do you believe that the current run rate can actually make us achieve the objective?

Tarun Arora:

So, we have taken out a substantial portion of cost at an employee level. I think from now on, it will be more like my guess, the increase as a market and a small percentage increase for any expansion that we may need. So, that is how the fixed cost on employees will move, in my view. Right now, we have been taking out substantial costs, but that will kind of seize from now is how I would look at it.

It may still give me operating leverage, if I can achieve my double-digit growth as we have, and I think it is somewhat a time that should continue to grow at faster than the employee. That is how we would plan to that. You can build your models accordingly.

Moderator: Thank you. The next question is from the line of Ruchitaa Maheshwari from BOB Caps. Please go ahead.

Ruchitaa Maheshwari: My question pertains to Complian. So, just would like to know, we had a 5.6% kind of a market share and which has now come down to 4.8%, though last two quarters, we saw the category also declined. Now if you go through the history of Zydus, we used to have a brand called Actilife and which used to deal to the adult drinks, but we could not scale up and we had to call off that brand. So, how strong we are convinced that we will be able to scale up Complian brand going forward?

Tarun Arora: Ruchitaa, I think there are two different situations and at that point of time, it was a much smaller plate. And we were probably a bit ahead of time at that point of time to participate in the adult nutrition, which was actually much, much smaller. Having said this, Complian is a far bigger far more powerful brand with its own strong following. And therefore, we are quite convinced that there is a big opportunity for this.

We are not losing momentum on this brand on the big packs. There is a structural shifts in this category, led by larger players. I think we have taken our time to respond to that, and we will be able to do that. Having said this, we are quite confident of having a larger nutrition play over the next 2 to 3 years, where we will be able to hold share in more medium term and build on that as well by participating in other spaces where the brand has traditionally not played.

You also must recognize the legacy that we bought that we had almost 5 or 6 years of continuous market share drop in this brand from a mid-doubles to our mid-singles. So, I think we are reasonably confident we will be able to hold and build on it. We have strong much more powerful brand than Actilife that we had at that point of time.

Ruchitaa Maheshwari: Okay. In Q4, we did launch some smaller packs in Complian. So, how was the customer response on the same? And are we planning to make that smaller unit packs available across India? Or how is it like or it will be only available in the Hindi-belt region?

Tarun Arora: So, we had launched the pouch packs 450-gram pouch pack, mainly in West Bengal in quarter 4. We have got a fairly decent response on that. We are hopeful to in this quarter launch, the pouch pack in our main variant which is chocolate, which should help us compete better as we move along. So, those are specifically so therefore, we will be scaling up our pouch pack 450-gram pouch pack to a national level as we speak. And that should help us competing with.

Ruchitaa Maheshwari: And apart from Nutrigro, are you also planning to address some white spaces, which is available in the Complian brand going forward?

- Tarun Arora:** Yes, we are looking at it, but we will share once we are ready for that.
- Ruchitaa Maheshwari:** And the Nutrigrino now, Covid has been passed off. So, you have been, I am sure, approaching to the MR for building your brands and recommending to the customers. So, what kind of a growth you feel that Nutrigrino will register maybe in a year or maybe in 2 years' time frame?
- Tarun Arora:** So, I think we expect to start getting a fair share in the toddler space, 2 to 6 years is estimated to be about 10% to 11% of the overall HFD market. We do not have sufficient representation there and we believe with this Complano Nutrigrino, at least we will start getting a fair share of 6% to 8%, at least in the next couple of years if we are able to get it right.
- Ruchitaa Maheshwari:** Okay. And just coming to, if we see across your brands, we are a market leader in 5 out of 6 of your brands, but we do not have that much liberty in taking a price hike. Earlier, we were a bit slower in taking a price hike and even the price hikes were not enough to cover all your cost of inflation. Can you specify what is the reason for us not taking a liberal price hike when our peers have been taking those kinds of price hikes despite, we being a market leader in many of the brands?
- Tarun Arora:** So, I think it is a function of each of the brands and the categories they are. For Glucon-D and Nycil the price hike has to be taken pre-season and we can take it in between, but we had to take, I mean, a substantial 85%, 90% of businesses of these brands get sold between quarter 4 and quarter 1. And we did take the price hike at the right time for these brands.
- For Sugar Free also, whatever we had to act once the prices went up, we did it. On Nutralite, as and when palm oil has gone up for the institutional, we have been able to respond. I think the only brand where we have been more reluctant in taking price increases has been Complano, which is more led by the fact that competition is actually taking prices down. And therefore, we have had to be holding back our actions.
- Everyuth has also taken price increases effectively and there has been a good response to it without losing any momentum on the brand. So, it is only Complano we have been reluctant as that is the competition.
- Sharvil Patel:** We have to understand as the company for all of other than Complano, I think they have been very good at being able to take the right price increases. Obviously, the strategy for the organization is to grow by volume and not by price. So, that has to be the fundamental in terms of how we run our business because the Indian consumers are price conscious. So, there is a limit to what we can do.
- But in terms of margins, we have done fairly well in terms of taking price increase and we are premium in that category. With Complano, I think it is a very different strategy because you cannot do it because while there have been inflation and price increases, the leader brands are actually reducing price which is contrary to all logical thinking. So, we have to defend that as

the way the market behaves. But by and large other than that, we have been very responsible in terms of price increases.

Ruchitaa Maheshwari: Okay. Sir, have you taken any price hike in Q1?

Tarun Arora: No. Those prices were effective already in Q4, and therefore, we did not have to take anything specific. Over last year, Q1, there is a price increase, but we did not have to do any specific actions in Q1.

Ruchitaa Maheshwari: Okay. So, I believe, sir, you have taken some 7.5% of price increase, of which 5.3% has been implemented. Am I correct on this?

Tarun Arora: No.

Sharvil Patel: I know all of it is implemented.

Tarun Arora: Everything is implemented. There will be shifts because of mixes, but product mixes, but all of it is implemented. There is nothing in the pipeline.

Ruchitaa Maheshwari: Okay. And just one last question from my side. The goodwill which we have in our books, so have you thought of amortizing it and how it will be going forward, whether it will be in phases or it will be in one go? Or what is your thought process on this?

Tarun Arora: So, goodwill is not amortizable in the books of account as per the IndAS. But when we do some business combination, that time we will think of restructuring it. But currently, it is not amortizable as per IndAS.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to the management for closing comments.

Tarun Arora: Thank you, everyone, and we will see you in the next quarter.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.