Zydus Wellness

May 20, 2022

Listing Department
**BSE LIMITED**
P J Towers, Dalal Street, Fort,
Mumbai–400 001

***Code: 531335***

Listing Department
**NATIONAL STOCK EXCHANGE OF INDIA LIMITED**
Exchange Plaza, Bandra Kurla Complex,
Bandra (E),
Mumbai–400 051

**Code: *ZYDUSWELL***

Sub: Transcript of the Investors' Call held on May 17, 2022.

Dear Sir / Madam,

Pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the Transcript of the Company's Q4 FY22 post results Investors' call of the Company's Investor Call held at 5:30 p.m. on May 17, 2022.

Please find the same in order.

Thanking you,

Yours faithfully,
For, **ZYDUS WELLNESS LIMITED**

UMESH VINODRAY PARIKH
Digitally signed by UMESH VINODRAY PARIKH
Date: 2022.05.20 16:09:19 +05'30'

**UMESH V. PARIKH**
**CHIEF FINANCIAL OFFICER**

Encl.: As above

# “Zydus Wellness Limited Q4 FY22 Earnings Conference Call”

**May 17, 2022**

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| **MANAGEMENT:** | **DR. SHARVIL PATEL – CHAIRMAN, ZYDUS WELLNESS LIMITED**<br>**MR. GANESH NAYAK - DIRECTOR, ZYDUS WELLNESS LIMITED**<br>**MR. TARUN ARORA - CEO, ZYDUS WELLNESS LIMITED**<br>**MR. UMESH PARIKH - CFO, ZYDUS WELLNESS LIMITED** |
| **MODERATOR:** | **MR. MANOJ MENON – ICICI SECURITIES** |

**Moderator:** Ladies and gentlemen, good day and welcome to the Zydus Wellness Limited Q4 FY22 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant 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. Manoj Menon from ICICI Securities. Thank you and over to you, sir.

**Manoj Menon:** Hi, everyone, welcome to the Q4 FY22 Results Conference Call of Zydus Wellness Limited. It is a wonderful good morning, good afternoon, good evening depending on the part of the part of the world you are joining this call from. The management is represented today by Dr. Sharvil Patel - Chairman; Mr. Tarun Arora - CEO; Mr. Ganesh Nayak - Director and Mr. Umesh Parikh - CFO. At ISEC Institutional Equities, we cover Zydus Wellness and we have constructive view on the business and the stock. Now, over to the management.

**Tarun Arora:** Good evening everyone and welcome to the post results teleconference of Zydus Wellness Limited for quarter 4 financial year 2021-22. We have with us Dr. Sharvil Patel - Chairman; Mr. Ganesh Nayak - Director and Mr. Umesh Parikh - CFO. As the economy is witnessing high inflation in the food and commodity prices, our key inputs like milk and refined palm oil are on continuously rising trend and see no sign of abatement. The rising developed inflation has impacted consumer sentiments and affected consumer demand. Since the company commands reasonable pricing par for most of its brands, it has been able to take calibrated price increase over the last couple of quarters and balanced the cost and profitability.

During the quarter, the company has posted net sales growth of 5.7% which includes volume growth of 0.4%. Our gross margin as percentage to net sales have sequentially improved by 265 basis points on the back of price increase and cost improvement measures. Amidst the spread of COVID-19 during the last 2 financial years impacting the summer heavy brands, our net sales on the 2-year CAGR basis, posted a growth of 7.1% despite the erosion of around 8% to 9% of total annual revenue each year. For the financial year 2022, we have achieved a growth of 7.3% on net sales and 7.6% on total operating income respectably over previous financial year. Despite the challenges like COVID-19 and inflation, company has been able to navigate through these headwinds by taking appropriate measures and match last year's performance and in terms of EBITDA

Let me take you through the highlights of consolidated financial performance of quarter 4 financial year 2021-22. During the fourth quarter of financial year 21-22, our total income from operations grew by 5.6% to Rs. 639.8 crores. EBITDA was down by 2.7% year-on-year to Rs. 1,450 million. PBT was down by 0.9% year-on-year to Rs. 1,314 million. Net profit was up by 0.1% year-on-year to Rs. 1,333 million.

Coming to the annual consolidated financial highlights, our total income from operations increased by 7.6% year-on-year to Rs. 2,009.1 crores during the year, our EBITDA was up by 0.1% year-on-year to Rs. 344.8 crores. EBITDA margins as a percentage to total income from operations stood at 17.2%. PBT after exceptional items was up by 172.7% to Rs. 306 crores. Reported net profit was up by 160.1% to Rs. 308.9 crores. Adjusted net profit was up by 23.1%. Our consolidated cash position stood at Rs. 196.8 crores including investments made in liquid funds. Our consolidated CAPEX for the year was Rs. 66.9 crores.

With that, let me share some of the highlights of operations for the year 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 highlighted earlier, there was a steep shortfall in sales due to second wave of COVID-19 in the peak summer season. However, early set-in of summer in the last quarter of financial year in the key markets has helped the brand recover and post the double digit growth for the financial year. ImmunoVolt which continued to deliver steady business was supported with TV campaigns and distribution drives. Glucon-D has maintained its number one position with the market share of 58.5% in the glucose powder category as per MAT March 2022 report of Neilsen.

On the Complan front, as per Neilsen, the Health Food Drinks category has slowed down over the last 3 quarters with flat to negative growth over comparable previous year. The category reported 2% degrowth in the last quarter for the financial year which impacted the business. During the year gone by, the brand has relaunched with improved taste and pack design and strengthened the position by not just focusing on growth, but also on memory and concentration. The relaunch was supported with its new campaign “Ummeedo se aage badhne ka plan” which communicated the key benefits of the brand. During the last quarter of the financial year, we relaunched the new campaign 'Pack palto, fark dekho' emphasizing on its narrative focused on right nutrition leading to better growth. The brand's market share stood at 5.0% in the Health Food Drink category as per MAT March 2022 report of Neilsen.

On the Sweeteners front, the overall sweetener portfolio grew at mid single digit growth owing to higher base of the previous financial year, however, the portfolio posted a good double digit growth on a 2-year CAGR basis. The category is facing challenges as higher proportion of diabetes succumbed to COVID wave 2, thereby putting pressure on related consumption. We onboarded a new brand ambassador, Ms. Katrina Kaif along with the new campaign, the future focused Stevia-led range of Sugarfree Green registered a high growth rate and it has helped drive the e-commerce first approach. The Sugarfree brand is firmly holding the ground and the company's market share stood at 95.7% as per the MAT March 22 report of IQVIA. Sugarlite continues to grow at a high double digit during the year with consistent support on above the line and digital front to recruit new consumers into the healthier sugar segment.

On the personal care front, Everyuth brand outpaced the category growth and registered a strong double digit growth during the financial year gone by. The brand launched a range of body lotions in quarter 3 and continued to build new range along with the COVID portfolio of skin cleansing with consistent ATL inputs on TV and digital platforms. Everyuth Scrub has maintained its number one position with market share of 39.0% in the facial scrub category, which is an increase of 367 basis points over the same period last year. Everyuth Peel off has maintained its number one position with the market share of 76.2% in the Peel off category. Everyuth brand is at number 5 position with the market share of 6.5% at overall facial cleansing segment level.

Nycil brand sales got impacted for second consecutive year due to second wave of COVID-19, however, the brand continues to maintain its strong leadership position in the prickly heat powder category supported by consumer offers and ATL initiatives. We are looking forward for a good summer season this financial year which will help us continue gaining market share. Nycil has maintained its number one position with the market share of 33.7 in the prickly heat powder category.

On the Dairy and Spread category front, Nutralite brand delivered a strong double digit growth during the year. In the Spread category, Mayonnaise business has doubled compared to previous comparable year. Nutralite DoodhShakti dairy portfolio which was impacted immediately after launch due to COVID second wave has started getting traction in second half of the year. It was well supported by TV, print and digital campaigns. Nutralite DoodhShakti Professional Ghee was launched in March 22 to expand its presence in the institutional and food service channel.

On the international business front, the company continues to expand its international footprint by entering new geographies like Hongkong, Lebanon, Zimbabwe, Muscat, Ethiopia and Australia during the financial year. The company also launched new extensions to Sugar free that is Sugar Free D'lite Cookies and Sugar Free D'Lite Chocolate Spread in international markets. The international business continues to grow at high double digits.

Unlike the last two financial year, the company anticipates normalized year with good summer season aiding its summer heavy brands like Glucon-D and Nycil and consolidate the performance of other brands. The company expects to see improvement in gross margins through a mix of initiatives outlined earlier in the coming quarters. Though the inflation will continue to be a concern, company is confident of navigating the challenges with the clear focus on driving growth and balancing the bottomline aspirations, with the combination of cost improvement measures and calibrated price increases. Thank you and we will now start the Q&A session. Over to the coordinator for the Q&A. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, 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, can you throw some light on the Complan market share, I believe it was 5.5% when we had acquired it and now it is down to around 5%, so are we losing value market share over here or is this the case of segment itself now performing as per expectations?

**Tarun Arora:** So, in the second quarter of 2019, soon after acquisition, we had touched 5.0, we have seen share going up to 5.5 and 5.7 and coming back to 5.0. We have seen a little bit of slow down mainly over last couple of quarters. We have had a good double-digit growth prior to that and I think it is largely impact of two factors. One is the category growth has slowed down, but our own performance also impacted by price drops taken by the leader in launching their pouch pack. We are pretty confident by our re-launch actions that we will be back at regaining market shares, but there has been a little bit of back and forth on this shares, but it is in the same zone as we acquired it.

**Kapil Jagasia:** So, would be we following the leader strategy or would we be also going for price declines, price cuts in this segment?

**Tarun Arora:** We are not following the leader strategy. What we are doing is actually 2 or 3 things, one in the re-launch, we have focused on the brand building where we are focusing on the proposition around overall growth which is beyond physical growth that we stood for. We are focusing on memory and concentration. We have also improved our taste and impact of the brand, however, to navigate the changing market scenario, we will be addressing the pouch and sachet, but we will do it not exactly following the leader, but we are testing some pieces. We have already launched the pouch pack in West Bengal for our creamy classic which addresses part of the pricing challenge, but not exactly following the leader.

**Kapil Jagasia:** Sir, my next question is, how is the traction in your seasonal products like Glucon-D and Nycil, we lost two summer seasons because of COVID, now this summer has really turned down well and there has been no COVID cases especially in the March, April and this May, so how has it turned out because industry like ice cream and carbonated drink players are doing really well, so your inputs on this?

**Tarun Arora:** So, summer season came a little later, but I think while I cannot share beyond a point, but yes, what I can say is our experience in the end of the last quarter was very positive, so we are hopeful that we still have some time to go for the season to complete, but it has started off well and we will see how it plays out.

**Kapil Jagasia:** And sir, last question from my side, would you continue to take price hikes to maintain your margins and if not, would there be cut in A&P spends going forward?

**Tarun Arora:** We are looking on the prices brand to brand and we have covered cost issues for each of the brands other than Complan where we may have to respond to the competition and the milk prices are zooming higher. So, we may take a portfolio call and balance it out, but we are consciously looking at calibrated price increases to balance our portfolio and cool down the gross margins and EBITDA margins. I think the focus on advertising is to continue building the brand and therefore it is usually the last call to manage the operating margins and I believe if at all those are tend to be temporary or calibrated again.

**Kapil Jagasia:** Sir, can we expect like gross margins to revert back to around 55-56% by the end of FY23?

**Tarun Arora:** Our intent is to be doing that, but hard to say because every quarter, we are seeing some new challenges and very hard to predict the way the world is changing. It is absolutely very volatile and nonlinear, so very hard to give any guidance at this stage.

**Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

**Pritesh Chheda:** Sir, just two interconnected questions, so on the summer portfolio for the summer branch, let us say not the competing product classes, but the seasonal product classes unlike you had even a tougher time for the last couple of years, for us, it has not grown, so is it fair to assume that at least for this year we are in for a fairly stronger growth in this portfolio and they form a significant part of your portfolio and hence the overall growth and by virtue of the fact that they are higher gross margins vis-a-vis the company level gross margin, so your initial feedback which you gave that you don't want to guide on the reverting GM back to 55, upon considering that they are a fairly high gross margin, you have that lever in terms of product mix this year as well?

**Tarun Arora:** So, you are asking two things, one is the seasonal products performance and its impact on the gross margin, so seasonal products have started off well and we are quite hopeful that the whole season will play out, very hard to say how the demand happens because just for you to and for everyone to see that seasonal products have a very inherent thing that they have a short window, typically say a consumer buys 1.5 pack in a season and it has re-recruitment, so we are hoping that we will be able to recover back a lot of those lost consumers over the last couple of years and we are quite hopeful of that. So, we remain as optimistic as you suggested. And we also hopeful that there will be operating leverage and a positive margin impact on that, but it has to play out as we hope it plays out in the topline.

**Pritesh Chheda:** And your comment on you have covered cost issue on each brand except Complan, so for this drop in gross margin, do you want to indicate that the price increases on all brands except Complan has been taken care of, that is how we should interpret as on date based on whatever the material prices are?

**Tarun Arora:** Yes, largely we have covered most of them at individual brand level. There may be a small here and there, but largely we have covered most of them.

**Pritesh Chheda:** So, this would have happened in the preceding quarter which is the current reported quarter whose benefit should now flow in, that is how it is?

**Umesh Parikh:** It has already happened in the last quarter and substantial benefits have flowed in, some more benefits yet to go, but substantial benefits have flowed in.

**Pritesh Chheda:** But sir, despite that there was 350 bps gross margin drop, so I couldn't interpret that comment?

**Tarun Arora:** So, there are also product mix impacts which come, so there are mix of 2 or 3 factors. We have also seen across FMCG and us similarly. There is a certain reduced volume impact and therefore that is also a mix impact where certain product categories also play out, so I think we have largely covered. We had taken at an estimate level of about 7.5% price increase of which 5.3 has played out. Let us see how this remaining plays out assuming the same mix and planned numbers play out. We will see and we are also on the conscious of tracking each of the products because there has been further cost increases, we will act anywhere we see there is an opportunity to take further increases. So, it is a very dynamic situation given every day we have new news like mid of the last quarter we saw this Ukraine crisis, we have seen packaging price going up led by crude, so some of these are dynamic in nature. We have to adjust and acting on each one of them as we speak.

**Pritesh Chheda:** And sir, our hypothesis that Nycil and Complan or Nycil and Glucon-D are higher than company level gross margin, at least that assumption is correct?

**Tarun Arora:** That is correct.

**Pritesh Chheda:** And lastly, what will be your debt repayment schedule or plan for FY23?

**Tarun Arora:** Debt repayment schedule, we will be on a gross debt basis, will be debt free by mid of the next calendar year.

**Pritesh Chheda:** Mid of 24?

**Tarun Arora:** Yes, so mid of next calendar year, I am saying that in calendar year 23 by June-July will be debt free on gross debt basis.

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

**Tejas Shah:** My first question pertains to market share, among our portfolio which brand should have gained market share in this year and which would have lost market share?

**Tarun Arora:** Clearly, Sugar free and Everyuth have gained market share, we have maintained volume share on Nutralite, while value has slightly dropped, but that is pricing as captured by Neilsen, but their volume has maintained closer to 37%. Similarly, the Glucon-D, the shift is about 0.1-0.2, so largely maintained. Complan has dropped a little bit, few basis points.

**Tejus Shah:** Sir, second question is that since the acquisition happened, we did not have single summer which was a normal one and as the previous participant also alluded that the large part of our profitability is somewhat dependent, so now with a very normal summer in fact, more than normal summer going along, do you feel that ambition of our EBITDA margin also moving back to 22%, we will have some definite directional move in this year and if it has to happen this is the year where it should actually surface or you believe that there will be some headwinds which might derail us from achieving that ambition?

**Tarun Arora:** I think like I said intent wise, yes, I think when we get the full revenue, the operating leverage also plays out. We are acting also on the gross margin, so these are the things that will matter for us to play out, the revenue, addressing the cost through taking the calibrated price increase and cost and the operating leverage to play out. We are working on all three of them. We are hopeful that directionally this year should move in the right direction at our operating margin level, but last few quarters have taught us that you can plan for something and it can be different, so I would say I will take cautiously optimistic.

**Tejus Shah:** Sir, are you optimistically cautious or cautiously optimistic?

**Tarun Arora:** Beyond a point, I can't, but we are really committed on that. The challenges are at multiple levels both from the demand side and the supply side and therefore it is a hard journey for the entire management team to navigate it holding our market share and profitability together.

**Dr. Sharvil Patel:** So, I think maybe let me add to what Tarun is saying, I think what we have to all understand and what we are also getting to see somewhat in the market is that too bad summer, obviously we have seen good traction this year, but we have to wait and see that this business remains sticky because two years the habit formation may have changed in consumers and they would have moved away from something. So, I think it has been a good start, but we have to wait and see. That is why I think it is very difficult to predict what happens for the full summer, but the brands are very strong and strong market leaders, so we believe that they will do well. The second thing is that is the challenges with the inflationary pressures, the price increases and overall increases and cost of living increases that is happening for any consumer. The consumer has only a certain amount of money that they can spend, while many of our products are not discretionary and not I would say essential, but near to essential category. We would see less disruption, but we still have to wait and see how this inflationary pressure affects the consumer demand and consumer uptake. So, I think looking at all of those things, I think it is very difficult to predict how the year would go, but I think the brands being market leaders and I am not saying the essential but they are important, I think we would hopefully tie over this difficult inflationary pressure that we are seeing.

**Tejus Shah:** And sir, last one, on CAPEX, in FY22 we did a CAPEX of Rs. 75 crores which was materially higher than our past run rate of Rs. 25 to Rs. 30 crores, so any mega CAPEX which we missed out on earlier calls?

**Umesh Parikh:** Yes, one mega CAPEX that we did talk about it earlier that it was bidding R&D center which is the state-of-the-art R&D center and we consolidated Rabale unit and Ahmedabad unit into one and we now have Ahmedabad R&D center which is newly built up where we have spent Rs. 40 crores. If you take that out, then the CAPEX is almost normal which is Rs. 30 to Rs. 35 crores.

**Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

**Kaustubh Pawaskar:** My question is on Everyuth face wash, have we gained any market share in Everyuth face wash this year?

**Tarun Arora:** Yes, a small percentage, it is few basis points. We are seeing face wash growth in the last financial year improving over earlier years, but it is too small for us to make a large point to the investors at this point, but we do see some of the benefits of distribution coming over to face wash, but I think it is too early to be satisfied with that.

**Kaustubh Pawaskar:** And what was our raw material inflation in FY22?

**Tarun Arora:** So, in FY21-22, the raw material inflation is 2.5 to 3%.

**Kaustubh Pawaskar:** And in quarter 1, it has gone up by another 4%, so you have taken 7-7.5% kind of price increase, is that the right assumption?

**Tarun Arora:** Yes.

**Kaustubh Pawaskar:** And my last question is on the distribution, how much is our current distribution reach and for last couple of years, I think we have been focusing a lot in expanding our reach, so what is our current reach and where do you see our reach going up in another 2 years?

**Tarun Arora:** So, distribution we measure at two levels, one is on internal action which is direct distribution and the overall reach as reported by Nielsen. I think if we consolidate all our brands just reported at close to 2 million, my estimate is it will be higher and we will work with Nielsen to get the right numbers at a total level. Our own direct distribution is more than 0.5 million about 5.5 lakhs and we have planned to increase in the coming financial year by another 100,000 direct distribution points.

**Umesh Parikh:** I think our aspiration is to hit 1 million direct distribution over the next couple of years.

**Moderator:** Thank you. The next question is from the line of Selvamuthukumar, an Individual Investor. Please go ahead.

**Selvamuthukumar:** Just I have two questions regarding how much depth we have as of now? My second question regarding DoodhShakti Ghee, so what kind of strategy you are planning to capture the market share because most of the market share are regional fragmentation oriented, so what kind of strategy you are planning to capture the market share, can you elaborate on this?

**Umesh Parikh:** Debt currently we have about Rs. 250 crores in the book and about the DoodhShakti I will hand over to Tarun.

**Tarun Arora:** For DoodhShakti, our focus is two parts. We are focusing more in the region surrounding the North and West because that is where it is produced in Aligarh, so we are not going everywhere. We are also focusing a bit on the organized state because that is where our strengths are. Our aspirations are still very small given the size of the categories because we have limited production, but our fundamental focus is that we provide good quality ghee which is sourced from the land of Braj to a more discerning consumers and I think we have got good response so far.

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

**Alok Shah:** Sir, my first question is on Sugar free, in the slide deck you have mentioned that Sugar free has the potential to become amongst top 3 global brands, so wanted to check apart from Splenda which would be the other brands in the acquisition of Sweetener category?

**Tarun Arora:** From the global brands, there is Equal, Canderel, Splenda which are the top 3 players, there is also some regional players like something from Indonesia which comes and there is European brand, so Sugar free will be in the top 5 to 6 players globally. I think as we scale up in India and also in our focused international markets, we do believe that Sugar Free would be amongst top brands.

**Alok Shah:** So, my related question is that the penetration of Sugar free or artificial sweetener in India is around 20-22%, now wanted to check what will be the penetration of artificial sweetener in some of the countries where say Equal, Splenda, etc., are quite high and what is it that we will need to do to increase the penetration, so is there a definite play book that we will need to use now going ahead or how is it like?

**Tarun Arora:** I think one of the largest markets for sweeteners or sugar substitutes is largely US and part of Europe which are anyway more developed markets and there it is not just as sweeteners table top sweeteners, but also a lot of consumption happens through the culinary route as well. In India, I think we have actually got the right approach of balancing between diabetics and passive health seekers which is balancing on the life style and the diabetics and our portfolio right now is split between 50 and 50 between the two. We are taking actions on both sides on the diabetics as well as the health seekers. Some of the biggest headwinds that we face in India which is largely a thing that comes from US led information is the negative impact of using some of these sweeteners which impacts the belief or trust on sweeteners. We are taking sufficient actions to drive that by reaching out to diabetologist, circulating information on the safety of these products as well as the consumer consumption, trial generation and distribution expansion. I think our play book is already in place. It is just these negative headwinds which we have to keep overcoming which we have taken a consulted action over last 3 to 4 years. We have seen some improvements. I hope it will snowball into a larger number as we move forward.

**Alok Shah:** And any plans to also accelerate the presence in the HoReCa or the culinary segment where our share I think will be quite low currently?

**Tarun Arora:** So, HoReCa actually is negligible, it is a very small thing. Largely, HoReCa uses sugar substitutes in two way, one is with the tea and coffee the sachets that get sold where we do reasonably okay. Of course, some local brands come in between. Our major effort right now is as we are building our food service portfolio is to also get sugar free consumption in terms of making those culinary dishes which is a hard journey because typically it cost 2 to 3 times for some of these guys to switch from sugar-to-sugar substitutes. Also, sugar is a good filler of some of these deserts. So, it is a little bit of harder journey, but we are at it, I don't see it as a big revenue driver, but I see it as a major influencer in conversion for retail, so we stay on course on that as we move forward.

**Alok Shah:** No, what I was trying to get in is, because business we see lot of food products which sugar free or low sugar etc., so they would be substituting it some way, right, so I thought revenue for them or the cost through the consumer for them is at least 1.5-1.8x the normal variant so that is why I was just checking that is that a big potential that we are tapping into or, that is what I wanted to check?

**Tarun Arora:** I think there is potential there, we have been working with some of these players including, for example, we have a tie-up with Havmor Ice Cream where they put a sugar free branded product and we supply it to them, so there is clearly potential, but they tend to buy a lot, several players tend to buy from local players more at an ingredient level, so we are working on it. We will see if we can tap that potential also substantially as we move forward.

**Alok Shah:** My second question was on the prickly heat powder category, this is on the shelf I see couple of new brands like Candid, Clocip by Cipla and now Emami has acquired Dermicool, now of course may be the competition may not heat up in this summer, but next summer, we may be seeing a different competitive landscape, so how do we plan to maintain our shares over here under the Nycil brand?

**Tarun Arora:** Alok, the good news is that Nycil is one of the strongest brands in the category in terms of equity value. In fact, before acquisition, the brand was doing 29% volume share in 3 years of our acquisition it has touched 37. Our direct distribution has gone up, its total reach has gone up which shows that because of the limited reach because Heinz was a food company, so with the limited reach it was struggling with the support and the focus that we have on this brand, we have been able to scale up. Of course, competition will come and we do see what you are saying and I think somewhere that may also help us grow the category faster because earlier the focus on category building was much lower. If you ask my point of view, I think I am quite optimistic of this brand driving the category growth up and also gaining market share because our distribution reach has started building up. Earlier, our numeric was despite being a much larger player, almost closer to the number 2 player, now our numeric is shooting up, our waited distribution is much higher, so I am quite optimistic of how we will be able to navigate the competitive situation and if it grows the category, it is great for everyone.

**Alok Shah:** And my last question was on while Dr. Sharvil did allude that Glucon-D and Nycil are sort of essential, but they are in some sense quasi-essential also, so I just wanted to check what would be the rural saliency for this product because if some sort of an income distress quasi-essential product also sort of they just cut back over there also, just wanted to check that number if at all?

**Tarun Arora:** First of all, I think our rural saliency is highest in Glucon-D and Nycil. They used to operate at 30% plus, in fact Glucon-D used to be 33. As the categories shrunk in last two summers, it went up to 39 and even Nycil was 32-33% plus, the prickly heat category. Now, the point is that should I take the last two years or may be 2019 full year it is hard to say, but the fact is that rural salience is reasonably high and we are quite conscious of the impact it will have on these brands. So, we will see how it shapes up. The rural saliency of Sugar free and Everyuth and Complan is on the raise over last 4 to 5 years. We have been growing the rural saliency of these brands and we have seen much higher growth vis-à-vis Everyuth scrub and peel off the sachets are driving the growth because of the small pop strata the rural. Sugar free has grown from 14% to 18% over the last 4 to 5 years in rural saliency and so has Complan grown, so rural will become increasingly more important and it therefore worries me if the rural is struggling, but I think by our focus on improving our distribution, doing the right things, we may be able to overcome this in short to medium term.

**Moderator:** Thank you. The next question is from the line of Nikunj Gala from Sundaram AMC. Please go ahead.

**Nikunj Gala:** I have just one question on your trade payables, we have seen in the last 3 years, it is continuously declining, so I just wanted to understand the exact reason for this and like is this a number to work with going forward also?

**Tarun Arora:** In the last couple of years, we were very cautious during the COVID times and we were controlling the payments because we are prioritizing the payments which are very critical for the business and this year being the usual year especially in the month of March, we paid out on time to all our suppliers and therefore the payables have come down.

**Umesh Parikh:** And therefore, this could be a fair trend to assume.

**Nikunj Gala:** So, is it fair to assume that earlier we were negative working capital cycle company, so now 24 to 25 days of working capital positive and that would be a sustainable number going forward?

**Umesh Parikh:** There are couple of things, one -with the new modern business is like modern trade and e-commerce growing faster than the GT, which gives increase to the working capital. Number two is that there is a receivable, at the end of the year end, we did give some credit to our receivables which is the oneoff incident for which you can reduce your working capital number.

**Tarun Arora:** Just to add to what Umesh has said, I think March while for us is the financial year closing, but it is also peak of the season where our stock levels actually shoot out for the summer products, some strategic reserves for post plus season on the milk base products also go up and therefore we tend to have closing of the financial year with higher working capital, but which comes down substantially in the later part of the year. So, it is cyclical in nature, but for the end of March you will see this as a trend.

**Nikunj Gala:** But that is every year phenomena, right?

**Tarun Arora:** Yes and that is how it will be and plus what is driving the numbers up is also the structural movement up of the organized trade which we are dealing directly. So, these are two key reasons for moving our closing year working capital.

**Umesh Parikh:** Structurally yes, but right from current number of days of 26, you can assume around 20-22 days.

**Moderator:** Thank you. The next question is from the line of Ekta Sanghvi from Vallum Capital. Please go ahead.

**Ekta Sanghvi:** I had two questions, one being that after HIPL brand acquisition, have all the distribution synergies been fully leveraged, earlier we had some issues in the healthcare professional channel, so can we see now that all those issues have been smoothened out?

**Tarun Arora:** Yes Ekta, I think all the distribution synergies have been fully leveraged from all retail environments, REs we call in our distribution terminology both grossers, chemists, cosmetics, mortgage e-commerce, in fact we have been able to leverage everything. Healthcare also where we have leveraged the group's strength in the healthcare professionals for Complan Toddler base product I think we are leveraging in terms of at least outreach with them. So, we are at a full value out of them.

**Ekta Sanghvi:** Sir, the noted volume growth that we saw this quarter, this distribution expansion has not only contributed to volume growth, is that a correct way to look at it or like would it come in the coming quarters?

**Tarun Arora:** I think what we need to look at is one quarter standalone will not be an impact, the last distribution drive was almost a year back where we had added from Rs. 3.4 lakhs to about Rs. 5.5 lakhs, we had completed almost 13-14 months before back from today and we have been able to gain reasonable value out of it where we have seen almost high double digit growth on Complan over 3 to 4 quarters we have seen good growth in Everyuth, even sweeteners has gained value out of it. I think the last couple of quarters has seen the impact of what is really happening on the demand side which is impacting, like I explained to you earlier on the call how the HFD categories has practically degrew by 2% in the last quarter. Some of these factors are very hard to overcome in this short period of time and therefore to see the full impact of our distribution, you have to see as full year. Also, GT generally across the industry has seen a muted number over the last couple of years where the organized rate has actually grown and if you look at our presentation where we have talked about substantial increase of mortgage from 14% to 18% as the share of our business has been driving growth for us more than general trade. So, that is the impact of mix that has got impacted. So, I think distribution we will continue to drive, but it is not that linear from that point of view at a quarter-to-quarter level.

**Ekta Sanghvi:** And sir, just one question, sir, going forward which brands like in our portfolio do you think are the strongest and would be the biggest growth drivers?

**Tarun Arora:** We have aspirations of double-digit growth for each of the brands. Complan and Sugar free in last 2-3 quarters have had a harder journey, but I think they should be back on track basis of actions that we have talked about and with the summers, I think even Glucon-D and Nycil should have a good run. Nutralite and Everyuth continued to have double digit growth despite all the challenges, so if you ask me I think we should be in next 12 to 24 months should see a double-digit growth across all brands.

**Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

**Shirish Pardeshi:** Just two questions, one is on the international front, finally we are moving something, Tarun my short question on the international front is that what product assets we have introduced in international market and in a medium term may be 2 to 3 years, what kind of revenue share we are expecting?

**Tarun Arora:** I think for international business, our key drivers for this business are two brands, Sugar free and Complan which are driving this business, Sugar free franchise constituting both Sugar free sweetener, the table top sweeteners as well as the extensions which was chocolate and now we have launched Cookies and spreads. Complan by itself has different offerings across markets from Africa to Middle East and New Zealand, so these two are the key drivers of our business and we will be looking at more extensions around these two brands, of course while growing other franchisees as well. We have touched about 3.5 closer to 4% in last financial year from international business. Our aspiration is to organically take it to 8 to 10% if we can. We will look at some bolt-on acquisitions if they come for these markets to drive these numbers higher. The top 5 markets constitute about 70-75% of our portfolio, so we are focused to that.

**Shirish Pardeshi:** And my last question, you mentioned that modern traders move to 17-18%, that is correct?

**Tarun Arora:** That is modern trade plus e-commerce, so I would say organized trade.

**Shirish Pardeshi:** Alternative channels basically?

**Tarun Arora:** Yes, about 14 to 18% over last couple of years.

**Shirish Pardeshi:** And you mentioned the current inflation is running at 7.5 and you have taken 4.5% price increase?

**Tarun Arora:** We have taken a price increase which we informed last quarter of about more than 7%, however the results were increased, the benefit of 5.3. This is missed out by the fact that some of it may play out even in the following quarter as well as some mix impact also, but largely we have taken 7% plus and will play out.

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

**Kapil Jagasia:** Sir, which brand across your portfolio would have gained distribution reach over the last 2 to 3 years, I believe you had mentioned Complan had reached around 5.7 lakh outlets, so like Complan would be one and what about like Nycil or Glucon-D like where would have they reached?

**Tarun Arora:** Complan has gained post acquisition by almost 25-30% in terms of distribution reach. Sugar free has gained not to my expectation, but it has increased. Everyuth has substantially increased in distribution. We were about Rs. 4.5 lakhs, we have touched Rs. 6 lakhs, we have gained there. We have seen Nycil gaining substantially despite the challenges. Glucon-D has reduced the numbers from a peak of 219 and the reason being that the categories on 30% in 2020 and not fully regained, so from a peak of Rs. 16-17 lakhs, it was last year trailing at Rs. 12 lakhs, I am hoping that this year we will see the highest ever number, so that will happen. Nutralite has gone up in terms of distribution. So, actually distribution enhancement has happened across all brands and we are quite happy with the progress on that.

**Kapil Jagasia:** Sir, my last question is like some of the companies have started mentioning down trading, some of the consumer companies like Relaxo and also some of the air conditioner companies, any down trading being witnessed in our product segments like Nycil, Everyuth or any other product segment?

**Tarun Arora:** So, we have seen that it is doing well across segments, but that is a larger trend if you ask me. In Nycil, we have seen 20 gram portfolio, Rs. 10 price point doing very well, it did well last year, it is doing, continues to do well this year, early days, but we will have to see how it plays out. We have also launched in limited way sachet for Glucon-D to see if there is certain on-the-go consumption that it can drive. We have seen our sachets in Everyuth continuing to grow over last several years. So, I won't say just one-off as a down trading, a little bit of down trading which is driven by competitive actions, I have seen in the HFD category, Health Food Drinks category that is because the leader taking price down and driving certain direction of movement, but otherwise I think in any case at an overall level, there is a movement towards lower unit price packs which some may see as down trading and some may see at the point of consumption, because it is also measured doses and there are several other reasons which drive those consumptions.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

**Tarun Arora:** Thank you everyone, thank you for taking time and asking these questions. Wish everyone safety and health and see you next quarter. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.