Zydus Wellness

October 29, 2021

Listing Department **Code: 531335**
BSE LIMITED
P J Towers, Dalal Street, Fort,
Mumbai–400 001

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

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Sub: Transcript of the Investors' Call held on October 28, 2021.

Dear Sir / Madam,

With reference to our letter dated October 25, 2021 intimating you about the conference call with Analysts/Investors held on October 28, 2021, post announcement of unaudited financial results for the quarter / half year ended on September 30, 2021, please find attached the transcript of the aforesaid conference call.

This is for your information and records.

Thanking you,

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

Dhanraj Dagar
Digitally signed by Dhanraj Dagar
Date: 2021.10.29 15:46:49 +05'30'

DHANRAJ P. DAGAR
COMPANY SECRETARY

Encl.: As above

"Zydus Wellness Limited Q2 FY22 Post Results Conference Call"

October 28, 2021

MANAGEMENT: DR. SHARVIL PATEL – CHAIRMAN, ZYDUS WELLNESS LIMITED
MR. GANESH NAYAK – DIRECTOR, ZYDUS WELLNESS LIMITED
MR. TARUN ARORA– CHIEF EXECUTIVE OFFICER, ZYDUS WELLNESS LIMITED
MR. NITIN PAREKH – GROUP CFO, ZYDUS WELLNESS LIMITED
MR. UMESH PAREKH – CFO, ZYDUS WELLNESS LIMITED

Moderator: Ladies and gentlemen, good evening and welcome to the Post Results Investor Conference Call of Zydus Wellness Limited for Quarter Two FY22. If any participant is connected on both the webcast and the audio bridge, you are requested to mute the audio from the webcast to avoid any echo. To ask a question, participants are requested to click on the link for instructions to dial into the audio call to ask their questions. I now hand the conference over to Mr. Tarun Arora – CEO of Zydus Wellness Limited. Thank you and over to you sir.

Tarun Arora: Good afternoon and welcome to the Post-Results Teleconference of Zydus Wellness Limited for quarter two financial year 2021-22. We have with us Dr. Sharvil Patel – Chairman, Mr. Ganesh Nayak – Director, Mr. Nitin Parekh – Group CFO, Mr. Umesh Parekh –CFO for Zydus Wellness in the conference.

While the economy was still facing significant headwinds in terms of revival during the first half of the quarter gone by, after a very challenging second wave of COVID-19. The company has showed unwavering determination and kept close vigil on all the notes of business in order to minimize the impact on people in business. With the improved consumer sentiments and strong on ground execution during the quarter, the business witnessed good momentum, as a result of which the company posted a year-on-year growth of 12.2% in terms of total income from operations. The category of glucose powder and prickly heat powder witnessed de-growth during the quarter in terms of optics. Due to poor season and limited consumer mobility. Our brands Glucon-D and Nycil hence got impacted due to these headwinds led by the category while holding on to the market shares. The sales growth for overall business without these brands is substantially higher.

At the same time, the company faced significant inflationary pressure in key raw materials and packaging materials as the result of which our gross margins were down year-on-year by 571 basis points as percentage to net sales. While the company continued to build up the inventory of key raw materials at an opportune time to lock in favorable rate, the company has also taken few calibrated price increases across the impacted brands, which would start reflecting in the current quarter. As we kick off our journey of next phase of transformation, the transformation 2.0 we would like to share a few important aspects on this front.

The transformation 2.0 is being planned around broadly two growth levers, one creating a simpler organization structure and achieving cost reduction. Here the first part we are looking at reorganizing our Nutralite business for enhanced efficiency and better execution by integrating the salesforce into one entity that is Zydus Wellness Products Limited for better customer service with specific focus on retail and food service channels separately. Integrating our cold room and ambient warehouses for better efficiency. We are also looking at reduced cost to serve through distributor disintermediation in organized rate. The second part of this transformation 2.0, the digital transformation. The digitization of processes across value chain which will help the company to be future ready. It would include use of business analytics tools, integrated business planning, employee friendly HRMS tools, freight management tool and Salesforce automation software all of which would help automate several key processes. All these are under at various stages of development and implementation.

Let me take you through the highlights of the consolidated financial performance of quarter two financial year 2021-22. During the second quarter of financial year 2021-22 our total income from operations grew by 12.2% to Rs.3837 million. EBITDA was up by 12.6% year-on-year to Rs.305 million. PBT before exceptional items was up by 385.4% year-on-year to Rs.211 million. Net profit was up by 120.4% year-on-year at Rs.215 million. With that, let me share some of the highlights of operations for the quarter gone by.

We continued our thrust-on marketing initiatives to grow the categories and increase market share of our brands during the quarter. To narrate a few, on the Glucon-D front during the quarter gone by. The business was impacted negatively because of the adverse weather conditions and early monsoon in some parts of the country. Glucon-D ImmunoVolt continued to deliver steady business. It was supported with TV campaign during the quarter. On the Complan front during the quarter gone by Complan witnessed a double-digit growth. Complan was re-launched after a gap of four years with enhanced proposition, improved chocolate taste, new packaging along with new campaign to promote the brand. The new Complan focuses on all around growth with 2x faster growth and improvement in memory and concentration. This is supported with clinical data.

On sweetness front sugar free brand launched its new thematic campaign Fitness Ka Pehla Kadam, featuring leading Bollywood actress Katrina Kaif as its new brand ambassador. This was amplified by 360 degree media campaign on TV, print, digital across the country. Sugarlite continued its triple digit growth during the quarter across all channels. The grow was supported through consumer promos and impact properties in media, especially on TV and digital, along with on ground engagement activities to build trials and expand reach of the brand.

On the Nycil front, while the optic remain positive for the brand, the internal sales remained under pressure due to high channel inventory built up prior to the lockdown. On the Everyuth front, the brand continued to grow in strong double digits supported by ATL campaigns on flagship, scrapped portfolio and digital inputs on the entire range. The post lockdown recovery has been significantly better as compared to the last year. We have also launched an all new range of body lotions with an aim to play in the Livon space in skincare category.

On the Nutralite front, during the quarter gone by the brand witnessed a strong double digit growth in both institutional and retail business. The current institutional portfolio was re-launched as Nutralite Professional range, Nutralite Choco spread, which was available in one trade and e-commerce channels was extended to generate channel as well. The launch was supported by a TV campaign.

As per the MAT September 21, report of Nielsen and IQVIA. Glucon-D has maintained its strong position with a market share of 58.2% in the glucose powder category. Complan has a market share of 5.4% in the health food drink category, Sugarfree has maintained its number one position with a market share of 96.2% in the sugar substitutes category, which is an increase of 181 basis points over the same period last year. Nycil has maintained its number one position with a market share of 34.5% in the prickly heat powder category. Everyuth scrub has maintained its number one position with a market share of 39.2% in the facial scrub category, which is an increase of 543 basis points over the same period last year. Everyuth peel off has maintained its number one position with a market share of 77.3% in the peel off category. Everyuth brand is now at number five position with market share of 6.5% and the overall facial cleansing segment which comprises of all the face wash, scrub and peel off and other masks.

Going ahead on the positive side we see subsided second wave, improved consumer sentiments, and upcoming festive season. Well, however the unabated inflationary pressures could restrict this momentum. We stay committed to navigate this with decent business growth and balance bottom line. We do expect some of our initiatives like simplification of our sales organization with specific channel wise focus for our Nutralite brand would help us to perform better in the coming quarters. Thank you and we will now start the Q&A. Over to the coordinator for Q&A.

Moderator: Thank you very much, sir. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from line of Tejas Shah. Please go ahead.

Tejas Shah: Sir, first on growth you spoke about the challenges that we had, if you can give us some sense on slice and dice in terms of channel mix, this quarter on growth and also urban, rural mix, though rural is not that much relevant, but still if you can give some color on metro versus non-metro?

Tarun Arora: Sure. One of the things that we've seen is that growths are uneven, really speaking and this like I mentioned to you, in my speech if we really look at non-seasonal portfolio, the growth is much higher than reported at a brand portfolio level. When I look at channel wise level we've seen for example, e-commerce seeing a triple digit growth, it contributes at overall business level, business at 7%. Our international business has grown at high double digits contributes about 5% of the portfolio at a overall level. Even modern trade has seen a high growth levels, and is recovering, though the basis is not fully sorted to pre COVID levels. But that's also seen good growth.

Going back to traditional trade and dissecting it to the urban and small town plus rural, which is a super stockiest business, we seen in non-seasonal portfolio about three to four times growth. So, largely the direct urban has been very low growth. It is the rural and the small towns which have driven the growth. So, it's a kind of mix, which is very uneven from a growth point of view, and we are seeing rural or a small towns responding well to growth, they're driving the growth much more. In the urban space, it's the emerging channels, which are driving the growth, the food service HoReCa has seen a good growth recovery, but the traditional urban retail is still on a lower path.

Tejas Shah: Okay. And sir you spoke about making some pricing intervention. So, if you could split the growth in terms of broader volume and price and makes impact?

Tarun Arora: So, overall, we have taken a price increase of about 4.2%, of which all of it is not reflecting in our numbers yet because some of it will flow over to the next quarter. But about 2.5% is what is already reflecting in these numbers. Largely it's led by Nutralite we are obviously planning forward to take price increase across other portfolio but in the current quarters.

Tejas Shah: And sir last almost three quarters now we are maintaining, in fact four quarters we are maintaining mid-teens to high teens kind of growth are double digit on safer side. But now as we go in second half of this year, the base is also slightly aggressive. So, how are you looking at demand scenario to sustain this momentum at least having double digit revenue growth?

Tarun Arora: So, for yes, there are challenges because we have to face in the inflationary situation, there are risks because we are sitting with the high base like you rightly pointed out. And as we have to take aggressive price increases to overcome the gross margin pressure, input cost pressure, we could see some challenges, but we are still hopeful of delivering a double digit growth going ahead also. I would have preferred a much higher growth but it may be still possible and this clear growth momentum we'll have to see if it can happen across all channels, urban, general trade, direct distribution, while it's sitting on a good base still seems to be a little bit continuing to be under pressure. E-commerce non-trade will continue to contribute to growth, international will continue to deliver growth. I do actually hope that monsoons with the recovery in monsoon in the quarter gone by should also keep the rural momentum up. So, these initiatives should help us get better way to networth.

Tejas Shah: Sure. And sir last on margins you spoke about taking pricing interventions only Nutralite, is that correct, that I heard?

Tarun Arora: So, largely the impact that you see of the price increases as Nutralite but we are acting across the portfolio with the re-launch of Complan we've taken small price increase which will reflect. We are taking price increase in Sugar Free and Everyuth as well. And all of these will reflect in the coming quarter.

Tejas Shah: So, ceteris paribus if raw material stays where they are and they don't inch up from here. Are we covered to protect our margins from this base?

Tarun Arora: I do believe so, in the coming quarters, we should be able to maintain our margins, if the raw materials do not go up.

Moderator: Thank you. Next question is from the line of Praveen Sahay. Please go ahead.

Praveen Sahai: So, my question is related to Complan as you had mentioned in the Complan, double digit of growth and I can see their market share is at around 5.4%. And that's a quite consistent in the past quarters. So, you mean to say that this category itself is growing at a double digit and so, as we are, or we are faster than the industry?

Tarun Arora: So, therefore for us, we have now seen continuously over last three or four quarters a double digit growth, if I look at last quarter reported by Nielsen it is only 4.9 for the category, but my view is, they do not fully capture the whole at least Complan growth then we are engaging with them to either reflect rightly for us or correct the category because we don't see any reason why our growth should not reflect in them. So, my view is maybe they will be a certain correction at some point of time from their side because our growth is now consistent for the last three, four quarters.

Tarun Arora: Does that answer your question?

Praveen Sahai: In between I dropped off so, that.

Tarun Arora: Let me just repeat quickly on what you had asked. I said look, we are seeing a double digit growth over last three, four quarters. So, we are seeing a consistent growth. Last quarter Nielsen has reported a category growth of 4.9 by that logic, we should have had a higher, we should have seen some market share growth, which is not happening. So, we are engaging with them. It is it may be that they are not fully reflecting our growth or the category growth one of which they need to correct because our numbers are more secular in nature.

Praveen Sahay: Okay. Next question is related to Sugar Free, or sweetener category. There are also in the Sugarlite segment, you said triple digit growth you are delivered. So, is it fair to assume your contribution from the Sugarlite is increasing?

Tarun Arora: That's right Sugarlite is building up and it's in line with what milestones we had kept for it. So, it is the share of Sugarlite at overall sweetner spaces increasing which is good.

Praveen Sahai: So, what is the milestone like if you can?

Tarun Arora: So, there is no market share, but internal milestones as in, we had kept a certain set of targets for most of the NPD, the way we measure it is in terms of milestones we keep at quarterly or annual levels. So, it's tracking well on that, and we believe it can become the future large brand for us.

Praveen Sahai: Okay. Or any color on the contribution on your total pie of sweetener?

Tarun Arora: That's too early to comment on that right now. In the next few years, we will be able to give a full traction on that.

Moderator: Thank you. Next question is from the line of Kaustubh Pawaskar. Please go ahead.

Kaustubh Pawaskar: Sir, my first question is on your transformation tool. You just mentioned in your initial comment and emphasize on simplifying the structure and there will be some cost synergies because of it. So, any target you have, set up that because of this transformation, you will be saving this much amount in terms of efficiencies?

Tarun Arora: Yes, we do have a certain kind of synergy benefit targets, but we can't share it at this moment. But we do see a better customer service, more efficient process and a certain cost takeaway which we can take to our margins.

Kaustubh Pawaskar: Okay, the related question to that is that currently, we are hovering at around 17% to 18% operating margins. So, now with this transformation to your revenue mix is also changing in the portfolio with some of the high margins products, those contributions are expected to scale up. So, considering that, should we expect your operating margins to reach close to 20% by over the next two years?

Tarun Arora: Yes, that's really how, what we are targeting to in next couple of years to cross our 20% EBITDA margins.

Kaustubh Pawaskar: And sir, what is our aspiration for the international business, so currently it is 5% of our revenues. So, any plans for the international business whether you will be launching, number of products every year, you will be expanding your reach, so any thought process of that?

Tarun Arora: So, it's all organic play, at an annualized level we are about 3% to 4% for the quarter we did 5% because we have a mix between Q4, Q1 where the numbers are different on the base domestic business. Our wish list is to take it to 8% to 10% level. We are looking at expanding more countries and more products. For example, we have just launched a no sugar added Complan in Middle East, we are also exploring more products, but the top five countries which we have shortlisted which will contribute bulk of our business and we will build further on it, for example, we have just in the process of setting up a subsidiary in Bangladesh, which we believe can be a good potential future growth opportunity for the International.

Kaustubh Pawaskar: And just one more on the price increase when you mentioned that you've taken 4% kind of a price increase in your portfolio. So, how much more price increase, do you think you have to take to pass on the current level of raw material, we can say that the inflation is kind of there and might firm up further but at your current level of inflation, what kind of price increase is required?

Tarun Arora: Another 3% should help us, manage this cost inflation, some of which we have already rolled out and will reflect in the next quarter results.

Moderator: Thank you very much. Our next question is from the line of Alok Shah. Please go ahead.

Alok Shah: Thank you for giving me this opportunity. Sir my first question is, on Nycil and Glucon-D. Can you highlight the key states where the erratic monsoon would have led to this subdued sales?

Dr. Sharvil Patel: So, it's mainly to do with West Bengal and then some part of Northeast.

Alok Shah: Got it. So, this will be largely two states, which anyways are only skewed for these two categories?

Management: Yes.

Tarun Arora: And last year you saw the cyclone and is very obviously the whole peak of COVID with lower summer. So, two years these two brands have had an effect Nycil obviously did a little better in last year, but this year, obviously it could. But, as the situation normalizes and we have normalcy in terms of the peak seasons that we have, we should see better traction going forward.

Alok Shah: Got it. So, the question is that how do we plan to de-risk from your largely being focused on two state to going more into more states? So, what are the steps that we're taking for that?

Tarun Arora: So, there is good traction in Bihar now we have a very good business in Bihar and some of the parts of UP, so Glucon-D is on that track. Nycil has a good balance, so Nycil doesn't have complete skew and we are trying to see how do we build up the South market for many of these brands, and also the West. So, because of the whole distribution alignment that has happened, and even the distribution increase that has happened, we are seeing good traction in West and South. But the early good signals have been in Bihar and some of these other states, but they are being transferred to other, we are seeing good traction coming in other places also. But that will require a few years before things normalize. Also seasonal and non-seasonal, we believe Complan and Sugar Free and Everyuth and Nutralite can offset some of the seasonal biases that are there today. And that's the whole work that we're doing. Earlier we had talked about a second summer and how do we build for some of these brand for second summer. Obviously, we have not had that a portion in the last two years but as things normalize, we'll get to see some new extensions which can be the season can be extended towards the second half also.

Alok Shah: Got it, thank you. My second question is on the ad spends, so while we are doing a lot of adjacencies and product launches the ad spend rate for the current quarter was slightly lower than on a Y-o-Y base and on our usual run rate also. So, anything to call out over here or we'll catch up as we get into second half of the year?

Tarun Arora: So, on the ad spends what you say is right, but we are being more judicious in terms of where we can spend obviously everything has not been back to normal and we have had high impact activities like if you see for Sugar Free and Complan we have had those important activities on KBC and others so, being more targeted towards it with more normalcy back and more metros and others showing better trends we will see this improving and a lot of times it is also driven by re-launches or new strategies. So, Complan had that, similarly we are working on Sugar Free also and somewhere ad spends will now increase once we see traction on some of these brands on the Tier I and metro side.

Alok Shah: Got it. And my last question is on the upcoming product launches, anything that we should watch out for in a category or do you think it will continue to remain more secular?

Tarun Arora: No. So, I think Everyuth will see good traction with new launches and we're very excited about it. The brand has shown good buoyancy this year. And all lines are moving well and we are seeing new launches they're specifically to do with the winter range. Similarly the whole Nutralite franchise where we entered into the milk based products with butter, ghee, also mayonnaise, chocolate spread, so you will see that category on food services expand significantly for us. And sugarlite is an introduction there, chocolates is something that we introduced and we're seeing a few more introductions to in the sweetener basket which will add to the overall business side of it and going forward all of these are the likely introduction that you'll get to see some already happened and some that will happen over the next 12 months

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

Shirish Pardeshi: I have three questions, the first question is on the Complan we have done this re-launch is that the conscious strategy which we are trying to bring in the change in formulation and trying to price up the parameter?

Tarun Arora: No, there is no fundamental change in formulation we have just improved the taste. So, there is a minor shift in the flavor thing but are clinically proven formulation there is no fundamental shift. But we do believe that we enhance the proposition which is based on clinical data to focus on all around growth, not just the physical growth of 2x faster but also memory and concentration, which is clinically proven.

Dr. Sharvil Patel: And if I can add to what Tarun is saying you we also have launched for us, we are segmenting the market also, and we have launched a high value product in the prescription side also, which will again bill on the credibility and at the same time improve the profitability of the brand. But it's very early days and last one and a half year, we have not seen the clinic movement as much as we wanted. But as things are normalized, we believe that that will add an additional thrust in terms of up scaling the value on Complan also, and also segmenting it right.

Shirish Pardeshi: Got that. The whole question is around, we are in the range of about 5%, 5.5% market share. So, what is it that we need to do to get to our old share of 8 or 8.5%?

Tarun Arora: So, to answer that, there are three or four things that we've got, one of the important thing was the proposition needed to be enhanced to have a full growth proposition for the consumers, where today's consumer is much concerned about the mental development as about the physical development, and this new proposition addresses that. There were some concerns about the taste, acceptance of the consumers, which we've addressed. In the last one, one and half year, we've also upped our distribution focus, and we're also reaching out because as the category is getting more-and-more segmented and the role of the influencers in the doctor's advocacy is playing a role. So, direct doctor's advocacy on the base Complan, as well as using the other segments, like the Toddler, which Dr. Sharvil just mentioned. These all put together should help us gain share. We already see a momentum on the brand and in terms of our internal growth, market share should also catch-up as we move forward.

Shirish Pardeshi: Thank you, Tarun. Did, we related follow-up on that, which is the largest distributor brand I'm sure Nutralite is not the comparison, but could be Nycil or Everyuth. So, is the Complan distribution is ahead of that?

Tarun Arora: So, from a direct distribution, Complan will be amongst the most distributed but most available brand as captured by Nielsen today is Nycil. Nycil and Glucon-D are in similar zone. But in last one, one and half year due to Glucon-D being under pressure peak season Nycil is available in almost 1.5 million outlets.

Shirish Pardeshi: Okay. My second question is on Sugar Free. We have done a lot of variation over the last 6, 7, 8 years, now successful intervention which is happening. I understand you don't want to give the number. But other than the pure Sugar Free format, what are the new things which you can expect, because you are being a market leader, and now you're almost cross 96% market share. So, fundamentally you have the challenge to grow the category. But, the new formats what we have tried, what is it that we can do further?

Tarun Arora: Fundamentally, we have to overcome consumers resistance to try and shift it's a habit changing thing, where we have both the headwinds and tailwinds. And we are working on both addressing the writing on the tailwinds, which are clearly in the focus of healthier alternatives, which Sugar Free, fits in and overcome the headwinds which are led by concerns on sweeteners. We're addressing both of them together, Sugar Free Green, we got good early success when we launched in 2017, but we it plateaued, now we have re-launched and we expect that it should help us overcome these resistance that consumers have of adoption between this and some of the food categories that we are evaluating. We should take the Sugar Free brand in next few years to the next level that we expand.

Shirish Pardeshi: That's exactly what I was asking you Tarun. So, is that more than sugar free we need to have maybe something which can get into the adjacencies is that the attempt which will strengthen the core platform?

Tarun Arora: That's correct. So, we've already testing on learning chocolate space with e-commerce we'll probably expand that in next few quarters. And there are a couple of other spaces which we are evaluating too early to share at this stage. But we'll have to do enough homework because, for our size we have enough number of categories. I also want each category to have better productivity. So, whatever we get into, we will do enough learning because it takes up a whole amount of organizational energy to launch more products and to win in those products. So, we're doing a homework on those and those by step approach.

Shirish Pardeshi: Okay, just last question from my side. What is our saliency coming from e-commerce and modern trade. I'm sure, with the re-launch, you would definitely have the focus on these two channels

Tarun Arora: So, e-commerce itself, quarter gone by was at a total business level 7% domestic retail it goes almost 8.5%. So, this has bitten on our internal estimates. So, e-commerce continues to drive at a very, very aggressive pace. My guess is e-commerce and modern trade put together and as some of these other platforms are also doing a convergence at the backend and front end sometimes whichever way you want to look at it, put together could become a 20% of our domestic business on a sustainable basis.

Moderator: Thank you very much.

Tarun Arora: Okay, sure. So, thank you, everyone and wishing you all a Happy and safe Diwali. And see you next quarter.

Management: Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Zydus Wellness Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.