NIRMAL BANG
a relationship beyond broking

Zydus Wellness

Enriching Life

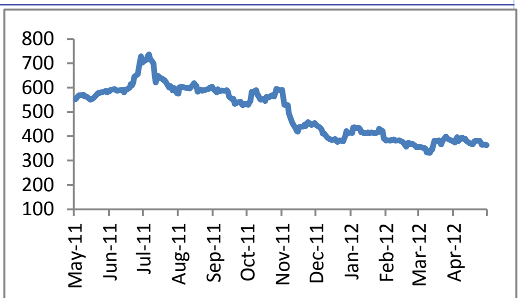
INITIATING COVERAGE – 30 May 2012

Zydus Wellness Ltd

Recommendation	BUY
CMP	Rs. 371
Target Price	Rs. 477
Sector	Packaged Foods

Stock Details	
BSE Code	531335
NSE Code	ZYDUSWELL
Bloomberg Code	ZYWL IN
Market Cap (Rs cr)	1427
Free Float (%)	27.46%
52- wk HI/Lo (Rs)	757/330
Avg. volume BSE (Quarterly)	26087
Face Value (Rs)	10
Dividend (FY 12)	50%
Shares o/s (Crs)	3.9

Relative Performance	1Mth	3Mth	1Yr
Zydus	-4.1%	-6.7%	-34.2%
Sensex	-3.9%	-6.6%	-10.7%



Shareholding Pattern	31st Mar 2012
Promoters Holding	72.54%
Institutional (Incl. FII)	16.36%
Corporate Bodies	2.87%
Public & others	8.23%

Ruchita Maheshwari –Research Analyst
(+91 22 3926 8023)
ruchita.maheshwari@nirmalbang.com

Sunil Jain – HOR (Retail)
sunil.jain@nirmalbang.com

Investment Rationale

- **Strong presence in niche segment:** The Company has created niche segment by introducing Sugar free sweetener for diabetes, Nutralite butter for health conscious, EverYuth skin care and also created one more brand named Actilife which is an adult's drink. The company being a niche player enjoys commendable market share and presence in the respective category. We expect gross revenue register a growth of 17% and 20% in FY13E and FY14E respectively.
- **Launch of value added products to widen consumer offering:** Zydus Wellness has launched extensions, variants, SKUs' under the already existing brands so as to fill the product gap, to enhance the wider offering; thus, expanding the present loyal customer base to other product categories. We believe that the company enjoys the premium position in the niche segment and enjoys the first mover advantage in all the categories. We also believe rising health awareness and the growing number of people with diseases such as diabetes and blood pressure will result in wider acceptance of such products thus; boosting revenues.
- **Expansion in distribution network to boost revenue:** The success in the consumer business is broadly dependent on the strong distribution network. The company understands the necessity of strong distribution network and on the same context is planning to increase its current 0.5mn outlets to 1.5mn. The company is expected to use the distribution network of its parent company (Cadila) to utilize the prescription route to promote its products. We believe this will boost the revenues going forward.
- **Increase in Advertisement expenditure to improve volume growth:** Zydus has cut back its advertisement expenditure in FY12 as the rival companies like HUL, J&J, etc had increased their advertisement expenses. This had led Zydus to cut back their advertisement expenses which resulted into the subdued performance in EverYuth. Management expects to revive the falling volumes and register double digit growth as company resumes its brand campaign n Q1FY13.
- **Debt free company:** Zydus is a zero debt company and has cash reserve of Rs. 132 crores on its books. The company is also open for inorganic growth and is scouting for some viable options. We feel that with the zero debt and sufficient cash on its books, the company can leverage the situation without stretching its balance sheet.
- **Lower Effective Tax rate and Excise Duty:** The company earlier used to go for third party manufacturing. But recently the company has set-up a facility in Sikkim in Q2FY12. As the company is expected to pay excise duty in Sikkim, but collect the refund from the government in the next year, the excise duty is likely to drop in the 2HFY13E.

Valuation & Recommendation

We initiate coverage on Zydus Wellness with a **"BUY"** rating with a price target of Rs. 477 per share (25x FY13E), an upside of 28.6%.

Year Consolidated	Net Sales (Rscr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	PE (x)	ROE (%)
FY11	335.4	25.4%	83.3	24.8%	59.5	17.7%	15.2	24.4	49.1%
FY12	330.2	-1.6%	76.0	23.0%	67.7	20.8%	17.3	21.1	41.7%
FY13E	386.3	17.0%	91.0	23.5%	74.5	19.5%	19.1	19.2	35.4%
FY14E	463.6	20.0%	111.6	24.1%	92.4	19.9%	23.7	15.7	33.6%

Investment Rationale

Competitive position in niche segment

With growing health and wellness consciousness among consumers, and increasing importance of fitness and healthy living, a significant change in consumer preferences and attitudes is being witnessed across India. There is a greater inclination towards 'Self-care' rather than 'Medicare' and greater awareness of the 'functional' benefits of healthy option available for the consumers have made them more empowered. Continuously increasing awareness of healthier lifestyles and willingness to spend more for fitness and well-being has resulted in a considerable rise in demand for products that work as preventive measures against lifestyle related diseases and provide nutritional and health benefits. This has created an emerging market, with health conscious consumers, willing to try better alternatives, and making informed choices.

In a strategic move to strengthen position in health and wellness space, Zydus Wellness forayed into sugar substitutes and launched "Sugar free", skin care segment named "EverYuth" range of specialty skin care products, low cholesterol table margarine named "Nutralite" and also forayed into nutraceuticals space by launching "Actilife", a nutritional milk additive for adults.

The company enjoys ~86% market share in Sugar free, ~70% market share in Neutralite, market leader in niche segment of scrubs and peel off and fourth position in face wash category under EverYuth brand while Actilife is still in a nascent stage.

Concentration on niche segment

Zydus Wellness with its conscious efforts has created niche segment and has emerged as a market leader. Zydus is continuously focused on niche categories and exploration of new concepts. The company has forayed into virgin territories with strong products and absence of competitors in its segment allows company to enjoy considerable pricing power. The company has created four niche segments which are as follows:

Sugar Free: A dash of sugar like sweetness

India has always been considered as the diabetic capital of the world, and the number of diabetics is growing day by day. With growing awareness of health consciousness and the increasing acceptance of artificial sweeteners, there exists significant potential for lifestyle management products like Sugar Free and its variants.

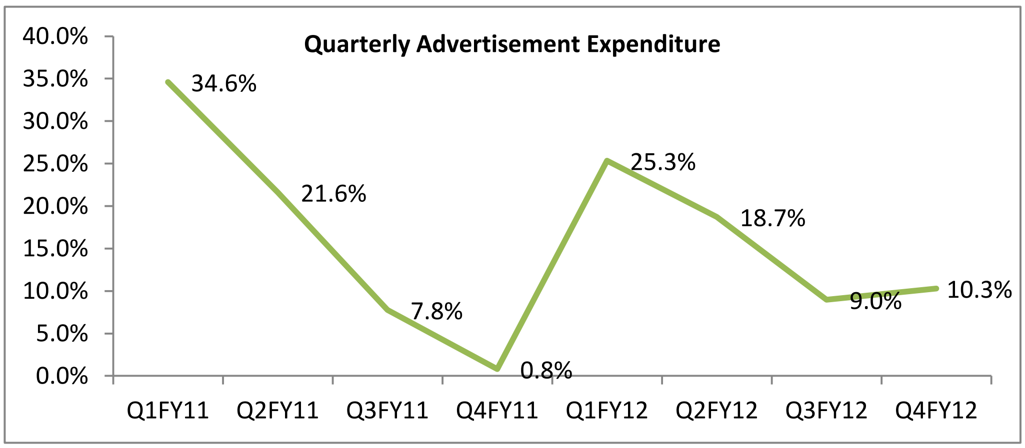
Sugar Free has consolidated its position in the low calorie sugar substitute market at the top with a market share of more than 86% (Source: AC Nielsen), holds good brand equity and goodwill for its expected health benefits, especially on the diabetes platform and enjoys the 'top of the mind recall' in the minds of calorie conscious consumers. With this dominant market share, Sugar Free continues to be one of the driving forces behind the overall category growth in the market place.

The Sugar free segment was facing some heat due to the market showdown (Zydus being a market leader has stopped advertisement and promotional activities resulted into the slow growth in the Sugarfree market overall) and registered single digit growth for the past three quarters as against the double digit growth. To keep the competition at its bay, Zydus has continued launch of relevant product extension and focused advertising and consumer communication has helped the business to sustain the momentum across the category. Management is confident of attaining same level of growth in near term. Going forward, the Company is planning to continue its focus on brand building initiatives and launch value-added products in this category to maintain its leadership position.

EverYuth: A specialty skin care range

The specialty range of skincare products marketed under the umbrella brand EverYuth holds a very strong presence in the advanced segments like soap-free face washes, face masks and scrubs.

For the past couple of quarters the company was facing a series of competition from multinationals like HUL and Johnson & Johnson (J&J) in the face wash and scrub category as these biggies have become aggressive in these categories. This has resulted into the loss of market share for Zydus Wellness as the company discontinued advertising which resulted into the slow volume growth. The intensified competition has affected the sales of EverYuth brand for the past couple of quarters. With the increased competition from FMCG giants the category size has enhanced in the domestic market which is a positive development. We believe that with low penetration the face wash and scrub category is likely to sustain above 30% growth in the coming quarters. To combat with the intensifying competition and improve the sales growth of the brand in the coming quarters Zydus has decided to increase advertisement expenses.



Source: Company & Nirmal Bang Research

Nutralite: low cholesterol table margarine

Zydus Wellness is the pioneer in launching low cholesterol butter and has gained 70% market share. Nutralite is always been a low margin product due to its present in institutional segment where the company has low pricing power. In the last couple of quarter, the Nutralite posted low gross profit margin owing to the rise in palm oil prices and with the company having 70% of revenue from institutional base (Airlines, Hotels, etc.) has further squeezed the margins. According to our Commodity Analyst, the palm oil price is expected to remain strong during the year though the production for Palm Oil will increase during the H12012, but the decline in availability of alternative vegetable oils like soy oil, rapeseed oil will keep the prices strong going forward. This we believe will keep the margin in segment under pressure for some more time.

The Indian food processing industry has seen significant growth and changes over the past few years. Changes in demographics and rapid urbanization have given way to value added products through the food processing industry. Influence of media and exposure to overseas markets has an influence on Indian lifestyle and trends. Health foods are bound to play a vital role in the progress of the sector. The butter substitute market is slowly gaining ground in Indian markets. India is traditionally a high butter consuming market and in the past five years, there is a shift in consumption observed, whereby, consumer acceptance of healthier alternatives is increasing.

Malaysia Palm Oil

Source: Bloomberg and Nirmal Bang Research

Actilife: Nutrition for adults

The Company also made forayed in nutraceuticals space last year by launching ActiLife, a nutritional milk additive for adults. Actilife is being sold at national level and is performing in line with the company's expectation. The company is focusing on improving the sales of its existing product portfolio though management believe the product will take three – four years to start contributing at the PAT level.

The category is at a very nascent stage and as of now the product does not have any competition in the adults drink. The company enjoys the first mover advantage and with the successful rich history of creating brand in the niche segment we expect company to replicate the same success story in the adults drink space as well going forward.

Launch of value added products to widen consumer offering

Zydus Wellness has launched product extensions, variants, SKUs' under the already existing brands so as to fill the product gap, to enhance the wider offering; thus, expanding the present loyal customer base to other product categories. We believe that the company enjoys the premium position in the niche segment and enjoys the first mover advantage in all the categories.

Launch of product extensions:

- The Company recently launched Sugar Free Natura Sweet Drops, making it extremely convenient to be used in beverages and for extended table top applications apart from cooking and baking
- Sugar Free TeaLite, a unique concept which offers the goodness of tea without the calories
- Sugar free mint
- Sugar Free Herbvia - the first herbal sweetener under the brand Sugar Free
- Forayed into emerging male grooming segment with launch of Menz, a basic skincare range for men
- Nutralite Mayonnaise
- Three variants like Coffee, Malt and Chocolate under ActiLife adults' drink
- The company is test marketing Purify hand sanitizers, which is differentiated with herbal properties.

Zydus has targeted the diabetes segment by creating a sugar substitute by launching sugar free. India is home to over 61 mn diabetic patients in 2011 - an increase from 50.8 mn last year. Accoridng to the industry estimates by 2030, India's diabetes burden is expected to cross the 100 mn mark as against 87 mn earlier estimated. We believe rising health awareness and the growing number of people with diseases such as diabetes and blood pressure will result in wider acceptance of such value added products thus; boosting revenues. We believe company is able to carve out niche segment by launching brand extensions' widening customer's offering which in our view will help growth and lower competition going forward.

Expansion in distribution network to boost revenue

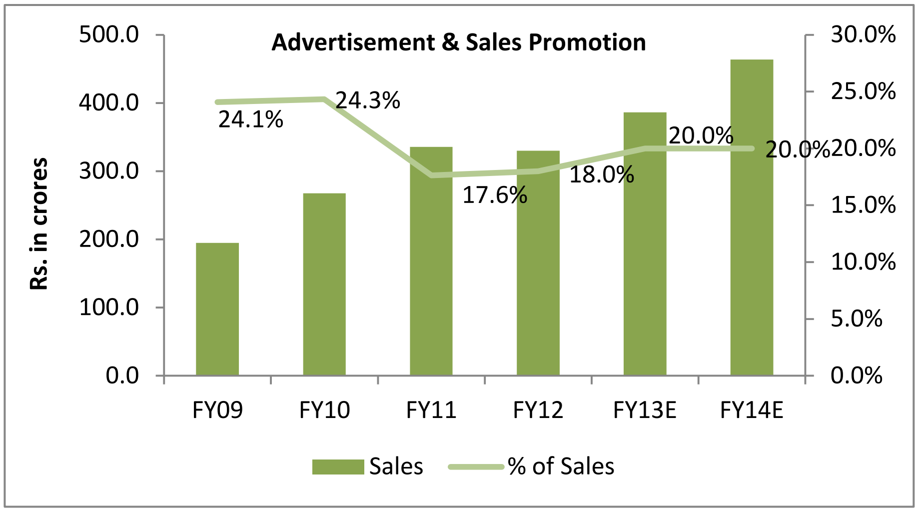
The success in the consumer business is broadly dependent on the strong distribution network. The company is taking conscious efforts to increase the breadth and width of the distribution network. The company understands the necessity of strong distribution network and on the same context is planning to increase its current 0.5mn outlets to 1.5mn. The company is further expected to use the distribution network of its parent company to utilize the prescription route to promote its products. We believe this will boost the revenues going forward. The company has also increased its distribution reach in Tier-II cities from the earlier 850 towns in FY10 to covering 1100 towns till date. This we believe will increase the reach of the product availability which will contribute positively to the top-line for the company going forward.

Increase in Advertisement expenditure to improve volume growth

Zydus has been an avid spender on advertisement to promote its products. The advertisement expenses accounts for 20% - 22% of the total sales for the past couple of years. In the last year, FMCG biggies like HUL, J&J had become aggressive by spending heavily on the face wash and scrub category. Zydus used strategy of postponing its advertisement spend and not getting lost in crowd of advertisement expenditure by the other FMCG companies. High competitive intensity in the skin care category has resulted in de-growth in EverYuth brand. Though the overall margins improved in FY12 on account of cut back in advertisement expenses but the volume growth was subdued.

Management expects to revive the falling volumes and register double digit growth as company resumes its brand campaign in Q1FY13E. The advertisement expense will increase on the EveryYuth and Sugar free where the company was witnessing slowdown in volume growth. The company will keep on investing in the Actilife brand as it's in a nascent stage and needs spending for brand building. We believe Zydus will face some squeeze in operating profitability due to increase in advertisement expenses but in our view the impact will be neutralize with the help of increase in volume growth.

The advertisement expenditure was 18% of revenue in FY12 which we expect it to increase to 20% in FY13E and FY14E.



Source: Company & Nirmal Bang Research

Debt free company

Zydus is a zero debt company and has cash reserve of Rs. 132 crores on its books as on FY12. The company is open for inorganic growth and is scouting for some viable options. We feel that with the zero debt and sufficient cash on its books, the company can leverage the situation without stretching its balance sheet. The company can also expand its activities without any impact on the financials of the company going forward.

Lower Effective Tax rate and Excise Duty

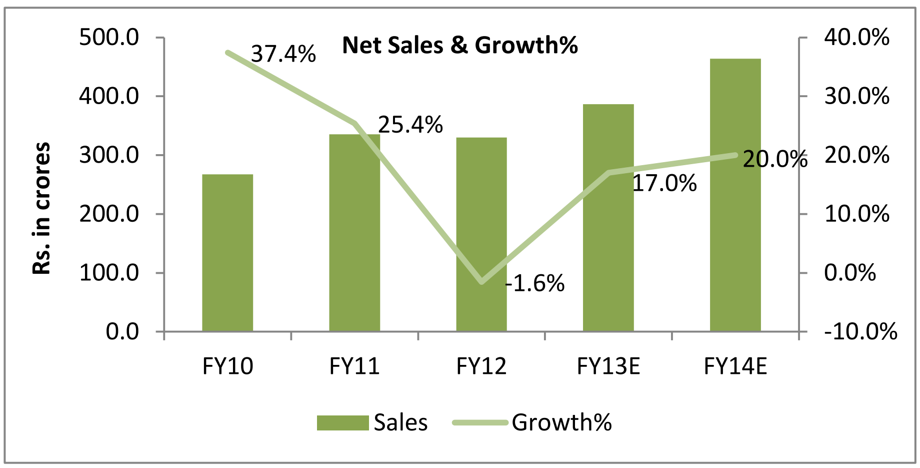
The company earlier used to go for third party manufacturing and has shifted to its own manufacturing in the start of FY12. The company has set-up a facility in Sikkim which become operational in Q2FY12. The facility will be used to manufacture EverYuth and Sugarfree products. The manufacturing facility was set-up in partnership firm and in tax free zone to avail tax benefit in the form of excise duty, income tax and MAT (as the MAT was not applicable to partnership firm). But in Union Budget 2012-13, the Finance minister has increased the scope of MAT for partnership firms claiming profit deductions.

According to the policy, the partnership firm is expected to pay MAT @20% from FY13 onwards. In FY12, the tax rate was 16.6% which will move to 22% in FY13E due to the partnership firm in Sikkim being taxable from 2012-13 onwards. The tax rate of 22% will still be much lower than 34% full tax paid by Zydus in FY11. Apart from this Zydus will be able to enjoy Excise duty exemption benefit in FY13E onwards.

Financial Analysis

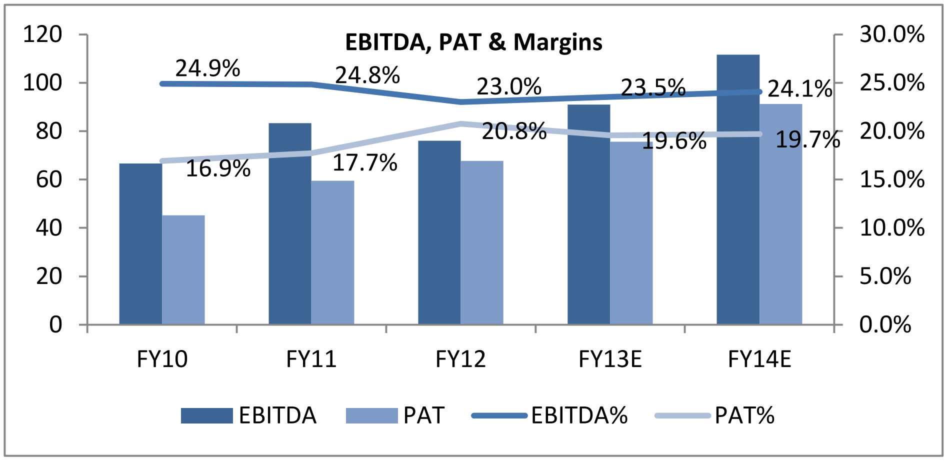
Zydus Wellness has grown at a CAGR of 67.4% over FY09-11, while witnessing moderate growth during FY11-12 owing to increased competition from HUL, J&J in the skin care space which resulted into the decline in the volume growth of EverYuth. The volume growth was further squeezed due to the lower trader margin from 7% to 6% which propelled the traders to reduce inventory in the trade. The company also suffered in the sugarfree (highest contribution to the total revenue) where the segment grew by single digit, Nutralite had grown by 7% due to severe competition posed by the unorganized butter player in the institutional segment and ActiLife being a new product did not make significant contribution to the top-line. We expect sales to improve with a view of double digit growth in Sugarfree accompanied with better performance by EverYuth face wash and scrubs on account of increasing advertisement expenditure and significant contribution by ActiLife to the top-line. The continuous effort by the company to increase the revenue contribution from retail buyer under Nutralite brand will relatively increase the pricing power and better margin for the company going forward. Currently, the institutional segment in Nutralite contributes 70% in FY12 from earlier 90% of the total revenue.

We expect net sales to grow at a CAGR of 18.5% and net profit at a CAGR of 16.1% over FY12-14E.



Source: Company & Nirmal Bang Research

We believe that the margins will improve from FY13E on account of double digit growth in Sugarfree, improvement in volume growth in EverYuth and increase in contribution from ActiLife. We expect the EBIDTA to increase by 19.7% to Rs. 91 crores and by 22.7% to Rs. 111.6 crores for FY13E and FY14E respectively. We also expect PAT to increase by 8.6% to Rs. 74.5 crores in FY13E and by 20.4% to Rs. 90.9 crores.



Source: Company & Nirmal Bang Research

FY12 Analysis

Q1FY12

In Q1FY12, the revenue growth was impacted as the company reduced its distributor margin from 7% to 6%, which impacted the off-takes at distributor's levels, as they opted to carry lower inventory. Distributor margin reduction, loss of Nutralite production (two weeks) due to machinery breakdown in the Ahmadabad plant and lower volumes on Nutralite due to price increase were the primary reasons for the variance.

The company reported jump in EBITDA by 25.6%YoY to Rs. 24.65 crores in Q1FY12 but fell by 54% QoQ. The margins improved YoY by 250bps to 14.1% in Q1FY12 but declined by 2180 bps QoQ as the company has incurred Rs. 22.99 crores of advertisement expenditure as compared to Rs. 0.62 crores in Q4FY11 which has eaten all the margins. The PAT rose by 10.2% YoY to Rs. 8.45 crores in Q1FY12 but fell by 55.1% QoQ. The PAT margin was up by 50bps YoY to 9.3% in Q1FY12 due to the jump in other income. But the margin declined by 1500bps QoQ as the tax rate shot to 40.4% in Q1FY12 as against 36.1% in Q4FY11.

Q2FY12

In Q2FY12, the top-line of Zydus Wellness grew by 5% YoY to Rs. 83.9 crores because of the following factor: (1) the Sugarfree category grew by 6-7% YoY (lower than the 18-20% growth in Q2FY2011); (2) competition was stiff from MNCs like Hindustan Unilever Ltd (HUL) and Johnson & Johnson (J&J) in the face wash and scrub category; and (3) sales of Nutralite were low during the quarter.

The EBITDA was flat YoY at Rs. 18.5 crores in Q2FY12 and was up by 44.6% QoQ. The gross profit margin improved by 60 basis points YoY and 380 basis points QoQ to 68.0% during the quarter. The tax rate during the quarter stood at 9.2%, which aided the bottom line to grow by 29.1% YoY to Rs17.4 crore during the quarter. The operating profit margin was down by 90 basis points YoY to 22.0% largely on account of a 370-basis-point Y-o-Y increase in the other expenses. The other expenses increased on account of Sikkim facility becoming fully operational in this quarter. The company has commissioned Sikkim facility resulting into the excise duty though it was previously outsourcing the manufacturing to the third party.

Q3FY12

In Q3FY12, Consolidated Net Sales reported decline of 17% Y-o-Y to Rs. 75.25 crores on the back of de-growth in Everyouth (face-washes and scrubs) brand. Sugarfree and Nutralite have recorded single digit growth during the quarter. EBIDTA declined by 21.5% Y-o-Y at Rs. 23.3 crores. EBITDA margins expanded 530bps Y-o-Y to 31%. The company has withdrawn its brand campaign / communication during the quarter due to very high competition resulting very low return on ad spends. Ad Spends were Rs. 6.75 crores as against Rs. 15.71 crores in Q2FY12. PAT decreased by 4.7% Y-o-Y to Rs. 18.64 crores as against Rs. 19.56 crores in Q3FY11. PAT margins expanded by 322 bps Y-o-Y to 24.77% in Q3FY12 as against 21.55% in Q3FY11. Low tax rate (16.1% vs 33.2% in Q3FY11) has helped to push up the PAT margins.

Q4FY12

In Q4FY12, Consolidated Net Sales reported an upside of 3.8% YoY and by 6.7% QoQ to Rs. 80.31 crores. The EBITDA fell by 11.3% YoY to Rs. 24.65 crores but saw an upside of 15.7% QoQ. The company has become aggressive in ad spend to Rs. 8.27 crores as against Rs. 6.75 crores in Q3FY12; a jump of 22.5%. The EBITDA margin increased by 240bps QoQ to 30.7% in Q4FY12 though it saw a decline of 520bps YoY. The increase in advertisement expenditure was the key reason for the decline in operating margin on YoY basis as the company has incurred negligible ad spend in Q4FY11 and the increase in other expenses. The Adj PAT increased by 24.6% YoY to Rs. 23.43 and up by 25.7% QoQ. The Adj PAT increased due to the jump in other income by 38% YoY and by 30% QoQ. The fall in tax rate also supported the increase in PAT. The tax rate in Q4FY12 stood at 9.9% as compared to 15.9% in Q3FY12 and 36.1% in Q4FY11.

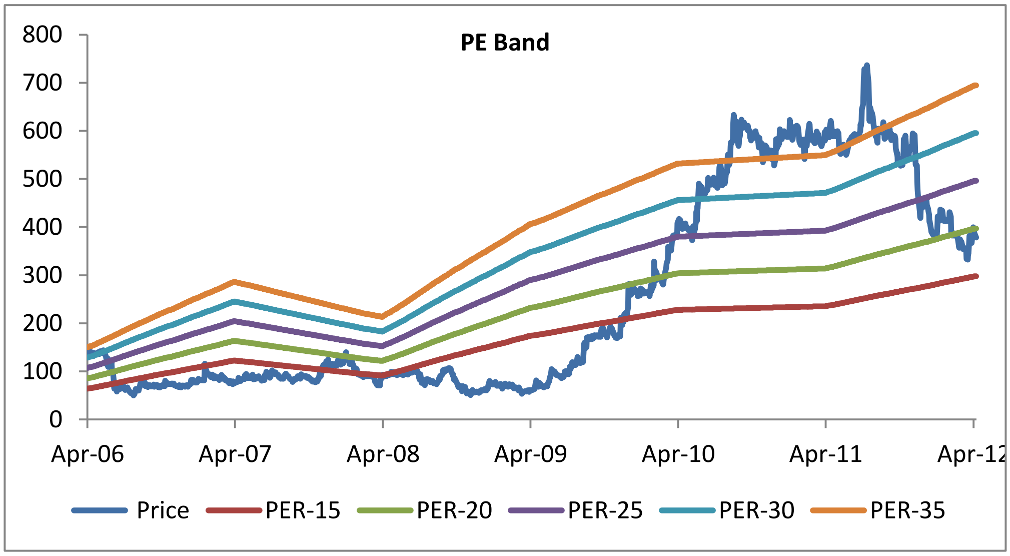
Peer Comparison

As such there is no immediate competitor of Zydus Wellness due to its monopolistic status in niche segment; we have tried to compare it with FMCG players due to similar characteristic like steady growth, high returns ratios, low capex and debt free status. Being a pioneer player, Zydus has garnered mammoth market share and enjoys the first mover advantage. The company was commanding the similar kind of high multiple compared with FMCG players, however, subdued performance by Sugarfree and EverYuth (its major revenue contributor) in last one year has resulted in drop in earnings multiple. The management has taken corrective actions in order to arrest the decelerating growth trend in its major products, which will further strengthen its leadership position. We feel these marketing strategies will result in accelerating top-line growth for the company going forward. The stock is trading at 19.2x in FY13E and 15.7x at FY14E which is lower compared to its historical PE of 23x-31x. The company has become aggressive in the space with the launch of new value added products, it will help the company to maintain its leadership status and will be able to command premium valuation compared to other FMCG players.

Company	Net Sales		EBITDA		EBITDA %		PAT		PAT %		PE (x)		ROE		EPS	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Zydus Wellness*	386	464	91	112	23.5%	24.1%	76	91	19.5%	19.6%	19.2	15.7	35.4%	33.6%	19.1	23.3
Bajaj Corp	565	673	143	170	25.3%	25.3%	140	161	24.7%	23.9%	12.6	10.9	28.3%	27.4%	9.5	11.0
Dabur	6075	7015	1031	1213	17.0%	17.3%	765	911	12.6%	13.0%	23.8	20.1	40.0%	39.6%	4.4	5.2
Marico	4683	5482	617	736	13.2%	13.4%	413	505	8.8%	9.2%	26.3	21.6	28.8%	26.7%	6.6	8.1
Jyothy Labs	1200	1386	143	176	11.9%	12.7%	82	114	6.9%	8.2%	20.0	14.5	13.6%	16.4%	11.0	15.2

Source: Bloomberg Estimates & *Nirmal Bang Research

One Year Forward PE Band



Source: Company & Nirmal Bang Research

Valuation & Recommendation

Zydus Wellness is bearing the brunt of its limited product portfolio. Though the company's products are in niche categories, the same are getting tough time from their competitors especially in the skin care category.

The single-digit growth in Sugarfree, tough competition from the multinationals in categories like face scrub and face wash, and the low sales of Nutralite resulted in mid single-digit growth in Zydus Wellness' revenues during the FY12. The company had also cut down the traders' margin from 7% to 6% which has further contributed in the low volume growth. The company is focusing on improving the sales of its existing product portfolio and we believe that the double-digit revenue growth will take place from FY13E onwards. The company has increased its advertisement expenditure in Q4FY12 which has resulted into the sales growth by 4.6% YoY and by 17.9% QoQ. This gives us confidence that the company will be able to achieve its lost glory and garner its lost market share going forward.

The management has indicated that it has redefined its strategies (support brands with adequate advertisement and distribution initiatives) and would now focus on improving the sales growth in the coming quarters. The management has able to report better than expected result in Q4FY12 and we believe that the company will be able to churn the momentum and will register good growth in the coming quarters. Though we feel that it will take time for these triggers to show an impact on the company's financials and we believe that the results will be visible from Q1FY13E onwards.

At CMP Rs. 371, the stock is trading at PE of 19.2x in FY13E and 15.7x in FY14E; whereas on EV/EBIDTA, the stock is trading at 12.5x in FY13E and 9.6x in FY14E. We recommend a BUY rating with a target price of Rs. 477 (25x FY13E), implying an upside of 28.6%.

We initiate coverage on Zydus Wellness with a "BUY" rating based on a 12-month price target of Rs. 477 per share.

Risks & Concerns

- **Inflation in input prices:** Any price increase of the input prices like Palm Oil, etc. will have an impact on the company's gross margin and our earnings estimates.
- **Failure of new brand launches:** Zydus has launched ActiLif, variants in Sugarfree, Menz grooming product under the EverYuth brand, product extensions in Sugarfree recently. Any failure in new product launches will lead to lower profitability and our estimates.
- **Weak volume growth in Sugarfree and EverYuth will drag down the estimates:** Sugarfree and EverYuth form a major chunk of revenue contribution. Both product segments witnessed a single digit growth during FY12E which lead to the muted performance for the company as a whole. If the company witnessed the same single digit growth during next two years, will have a major impact in our projection.
- **Entry of competitors in the niche segment:** Zydus Wellenss is present in the slew of products under the niche segment where it enjoys monopoly status in Sugarfree and Nutralite under the table margarine. With the market growth in the segment will lead to the entry of FMCG players resulting into the increased competition and hurting established players like Zydus Wellness.

Business Description

Zydus Wellness, a subsidiary of Cadila Healthcare, is one of the fastest growing players in the FMCG segment. The company combines the best of healthcare, nutrition and cosmeceuticals to bring the best wellness products to enrich human life. Their products include table margarine and spreads, cosmeceuticals and sweet meat.

The company operates in one segment, the consumer products. Their brands include Nutralite, which is table margarine; Sugar Free, which is a low calorie sweetener, and EverYuth, which includes skincare products.

Zydus Wellness appointed Elkana Ezekiel as CEO

Zydus Wellness has appointed Elkana Ezekiel in February 2012, to spearhead the operations of the company as Chief Executive Officer (CEO). Prior to this, Ezekiel was the Chief Marketing Officer for Samsung India. He was earlier associated with companies like Johnson & Johnson, Colgate Palmolive and Geoffrey Manners. We are positive with this development and this gives us confidence that the company is becoming aggressive in its space and is keeping no stone unturned in its endeavor.

Financials

Profitability (Rs. In Cr)	FY11	FY12	FY13E	FY14E
Y/E - March				
Revenues - Net	**335.4**	**330.2**	**386.3**	**463.6**
% change	*25.4%*	*-1.6%*	*17.0%*	*20.0%*
EBITDA	**83.3**	**76.0**	**91.0**	**111.6**
% change	*25.0%*	*-8.8%*	*19.7%*	*22.7%*
Interest	0.0	0.2	0.8	1.5
Other Income	8.17	10.27	11.00	13.00
EBDT	**91.5**	**86.1**	**101.2**	**123.1**
Depreciation	1.5	3.9	4.4	4.6
Extraordinary/Exceptional	0.0	0.0	0.0	0.0
PBT	**90.0**	**82.2**	**96.8**	**118.5**
Tax	30.5	13.7	21.3	26.1
PAT	**59.5**	**68.6**	**75.5**	**92.4**
Minority Interest	**0.0**	**0.9**	**1.0**	**1.5**
Adj PAT	**59.5**	**67.7**	**74.5**	**90.9**
Shares o/s (No. in Cr.)*	3.9	3.9	3.9	3.9
EPS	**15.2**	**17.3**	**19.1**	**23.7**
Adj EPS*	**15.2**	**17.3**	**19.1**	**23.3**
Cash EPS	15.6	18.5	20.5	24.8
DPS (Rs.)	4.0	4.5	5.0	5.5

Quarterly (Rs. In Cr)	Jun.11	Sep.11	Dec.11	Mar.12
Revenue including OI	**91.0**	**84.0**	**75.53**	**80.90**
EBITDA	**12.8**	**18.1**	**21.04**	**24.65**
Interest	0.02	0.03	0.03	0.07
EBDT	**12.8**	**18.1**	**21.01**	**24.58**
Dep	0.7	1.0	1.06	1.06
Other Inc.	2.1	1.8	2.26	2.94
Extraordinary	0.0	0.0	0.00	0.00
PBT	**14.1**	**18.9**	**22.21**	**26.46**
Tax	5.7	1.8	3.57	2.63
PAT from ordinary activities	**8.5**	**17.1**	**18.64**	**23.83**
Adj. on Conslodation	**-0.1**	**0.3**	0.26	0.40
PAT	**8.5**	**16.8**	**18.4**	**23.4**
EPS (Rs.)	2.2	4.4	4.8	6.1
Adjusted EPS (Rs.)	2.2	4.3	4.7	6.0

Operational Ratio	FY11	FY12	FY13E	FY14E
EBITDA margin (%)	24.8%	23.0%	23.5%	24.1%
Adj.PAT margin (%)	17.7%	20.5%	19.3%	19.6%
Adj.PAT Growth (%)	31.4%	13.8%	8.6%	20.4%
Price Earnings (x)	24.4	21.1	19.2	15.7
Book Value (Rs.)	36.3	47.8	61.5	79.3
ROCE (%)	74.2%	50.1%	45.7%	43.6%
RONW (%)	49.1%	41.7%	35.4%	33.6%
Debt Equity Ratio	0.0	0.0	0.0	0.0
Price / Book Value (x)	10.2	7.8	6.0	4.7
EV / Sales	4.1	3.8	3.2	2.5
EV / EBIDTA	14.9	15.3	12.5	9.6

Balance Sheet (Rs. In Cr)	FY11	FY12E	FY13E	FY14E
Share Capital	39.1	39.1	39.1	39.1
Reserves & Surplus	102.8	147.8	201.2	270.6
Net Worth	**141.9**	**186.9**	**240.3**	**309.7**
Total Loans	0.0	0.0	0.0	0.0
Minority Interest	0.1	0.9	1.9	3.4
Net Deferred Tax Assets	1.1	4.5	4.5	4.5
Total Liabilities	**143.1**	**192.3**	**246.7**	**317.6**
Net Fixed Assets	**89.4**	**96.1**	**96.7**	**97.1**
Investments	**0.0**	**0.0**	**0.0**	**0.0**
CWIP	0.0	0.0	0.0	0.0
Inventories	24.4	27.4	38.7	46.4
Sundry Debtors	1.2	0.7	2.2	2.7
Cash & Bank	89.8	131.5	177.0	250.2
Loans & Advances	14.4	11.5	17.7	21.2
C A L&A	129.7	171.2	235.6	320.5
CL & P	76.0	75.0	85.6	100.0
Working Capital	**53.7**	**96.2**	**150.0**	**220.5**
Total Assets	**143.1**	**192.3**	**246.7**	**317.6**

Cash Flow (Rs. In Cr)	FY11	FY12E	FY13E	FY14E
Operating				
Profit Before Tax	90.0	82.2	96.8	118.5
Direct Taxes paid	-32.9	-13.7	-21.3	-26.1
Depreciation	1.5	3.9	4.4	4.6
Change in WC	-4.0	-2.6	-9.9	2.7
Interest Expenses	-6.1	0.2	0.8	1.5
Other Operating Activities	0.0	0.0	0.0	0.0
CF from Operation	**48.5**	**70.0**	**70.8**	**101.2**
Investment				
Capex	-17.0	-10.6	-5.0	-5.0
Other Investment	-28.4	0.0	0.0	0.0
Total Investment	**-45.4**	**-10.6**	**-5.0**	**-5.0**
Free Cash Flow	3.1	59.5	65.8	96.2
Financing				
Equity raised/(repaid)	0.0	0.0	0.0	0.0
Inc/Dec in Reserves	0.0	0.0	0.0	0.0
Proceeds from Issue of Shares	0.0	0.0	0.0	0.0
Debt raised/(repaid)	0.0	0.0	0.0	0.0
Dividend (incl. tax) paid	-13.6	-17.6	-19.5	-21.5
Deferred Revenue Exp.	0.0	0.0	0.0	0.0
Interest Expenses	-0.2	-0.2	-0.8	-1.5
Cash Flow from Financing Activities	-13.8	-17.7	-20.3	-23.0
Net Cash Flow	**-10.7**	**41.7**	**45.5**	**73.2**
Beginning Cash Flow	100.5	89.8	131.5	177.0
Add: Deposits in Banks	0.0	0.0	0.0	0.0
Add: Foreign Currency in Hand	0.0	0.0	0.0	0.0
Cash as reported in Balance Sheet	**89.8**	**131.5**	**177.0**	**250.2**

Nirmal Bang Research (Division of Nirmal Bang Securities PVT LTD)

B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park
Lower Parel (W), Mumbai-400013
Board No. : 91 22 3926 8000/8001

Fax : 022 3926 8010