

Zydus Wellness Ltd.

Recommendation	HOLD
CMP (15/05/2013)	Rs. 543
Target Price	Rs. 630
Sector	Packaged Foods

Stock Details

BSE Code	531335
NSE Code	ZYDUSWELL
Bloomberg Code	ZYWL IN
Market Cap (Rs cr)	2118
Free Float (%)	27.5%
52- wk HI/Lo (Rs)	572/320
Avg. volume BSE (Quarterly)	2725
Face Value (Rs)	10.0
Dividend (FY 13)	60%
Shares o/s (Cr)	3.9

Relative Performance	1Mth	3Mth	1Yr
Zydus	29.4%	11.0%	61.5%
Sensex	7.4%	1.2%	21.6%



Shareholding Pattern	31 st Mar 13
Indian Promoters Holding	72.5%
Institutional (Incl. FII)	16.4%
Corporate Bodies	2.9%
Public & others	8.2%

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Year	Net Sales (Rs. in cr)	Growth %	EBIDTA	EBIDTAM (%)	PAT	PATM (%)	EPS (Rs.)	P/E (x)	P/BV(x)	ROE
FY12	330.2	-1.6%	76.0	23.0%	67.7	20.5%	17.3	31.0	11.4	41.7%
FY13	388.0	17.5%	96.7	24.9%	97.1	25.0%	24.9	21.4	8.3	44.7%
FY14E	465.4	20.0%	119.1	25.6%	102.9	22.1%	26.3	20.1	6.4	35.8%
FY15E	558.5	20.0%	142.9	25.6%	123.0	22.0%	31.5	16.7	4.9	33.2%

Strong quarter: Earnings growth momentum to continue

Zydus posted a strong quarter in terms of Net Sales/EBITDA/PAT growing 28.2%/22.3%/59.7% respectively. The EBITDA margin contracted by 140bps YoY to 29.3% and expanded by 160bps QoQ. The PAT registered a growth of 59.7% YoY to Rs. 37.4 crore and by 65.7% QoQ.

- Net Sales for Q4FY13 increased by 28.2% YoY to Rs. 102.9 crore and by 7.5% QoQ. The strong growth in the Net Sales was attributed to the high double digit growth (+50% volume growth & ~35% of the price hike impact though on a lower base) in Sugarfree and high double digit growth in EverYuth though on a lower base. However, Nutralite continues to disappoint with growth in single digit.
- The EBITDA was up by 22.3% YoY to Rs. 30.1 crore and by 13.7% QoQ. The EBITDA margin was down by 140bps YoY to 29.3% in Q4FY13 and up by 160bps QoQ. The margin was down on YoY basis due to the jump in employee expenses and Other expenses as a % of sales. The advertisement expenditure was 9.6% as a % of sales in Q4FY13 as against 10.3% in Q4FY12 and 15.3% in Q3FY13. Gross margin stood at 67.3% in Q4FY13 as against 65.4% in Q4FY12 and 66.3% in Q3FY13.
- The Adj. PAT was up by 59.7% YoY to Rs. 37.4 crore and by 65.7% QoQ. The PAT margin was up by 710bps YoY to 36.3% in Q4FY13 and by 1270bps QoQ. The significant jump in profitability of the company is attributed to the tax write-back of Rs. 5.1 crore in Q4FY13 as against 9.9% of tax rate in Q4FY12 and 21.8% of tax rate in Q3FY13. The jump in Other income further aided to the profitability of the company.

Valuation & Recommendation

The company has been able to report strong result in Q4FY13 and we believe that the company will be able to continue the momentum and will register good growth in the coming quarters. Zydus has re-launched EverYuth range whereas premium soaps and mens' fairness cream are also introduced. Zydus continued its brand building activities where the company has appointed actor Akshay Kumar for Sugarfree and Nargis Fakree for EverYuth as brand ambassadors. This coupled with 10-15% expansion in the distribution network is expected to support sales growth going forward. The company is focusing on improving the sales of its existing product portfolio and we believe that the company will be able to register high double-digit revenue growth going forward. We have introduced FY15E estimates where the net sales are projected to grow by 20% YoY to Rs. 558.5 crore. At CMP of Rs. 543, the stock is trading at a PE of 20.1x in FY14E and 16.7x in FY15E. We have revised our estimates for FY14E on account of strong FY13 performance where the EPS grew by 6% to Rs. 26.3 per share in FY14E. We have achieved our target price of Rs. 570 per share in our Q3FY13 result update on 14th May 2013. We roll-over our target multiple from FY14E to FY15E to a target price of Rs. 630 per share (PE 20x FY15E) on the account of continued strong revenue growth, solid balance sheet, strong return ratios. We recommend investors to HOLD & BUY on decline the stock for further gain.

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Change in accounting on Minimum Alternate Tax (MAT). The company has set-up a facility in Sikkim which become operational in Q2FY12. 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). Zydus has started taking tax credit (the full impact was on Q4FY13) which has reduced the tax rate for the company in FY13 to 8.2%. The management will continue to take tax credit which in turn will boost the profitability of the company by not impacting the free cash flows. But as a company has manufacturing facility in Ahmadabad as well, the tax rate will vary accordingly every year. On a conservative approach, we have assumed 20% tax rate for FY14E and FY15E.

Q4FY13 Consolidated Result Analysis

Rs. in crore

Particulars	Q4FY13	Q4FY12	YoY%	Q2FY13	QoQ%	FY13	FY12	YoY%
Net Sales	103.0	80.3	28.2%	95.8	7.5%	387.1	330.2	17.2%
Other Operating Income	0.4	0.6	-27.1%	0.1	207.1%	0.9	1.3	-28.6%
Total Income	103.4	80.9	27.8%	95.9	7.8%	388.0	331.5	17.1%
Increase / Decrease in Stock	-7.9	0.5		2.0		-9.6	-1.1	
Consumption of raw material	33.3	25.4	31.0%	29.1	14.5%	119.1	94.1	26.5%
Purchase of traded goods	8.7	2.4	257.6%	1.3	563.4%	15.7	23.7	-33.5%
Employees Cost	7.1	4.9	46.8%	6.4	11.3%	27.3	20.6	32.6%
Advertisement Expenditure	9.9	8.3	19.5%	14.6	-32.4%	68.8	59.7	15.2%
Other Expenditure	22.2	14.8	50.0%	16.0	38.7%	70.0	57.2	22.4%
Total Expenditure	73.3	56.3	30.2%	69.4	5.5%	291.3	254.2	14.6%
EBIDT	30.1	24.7	22.3%	26.5	13.7%	96.7	77.2	25.2%
Interest	0.0	0.1	-71.4%	0.0	-33.3%	0.1	0.2	-33.3%
Other Income	4.3	2.9	45.6%	4.1	5.7%	15.8	9.0	75.2%
EBDT	34.4	27.5	25.0%	30.5	12.7%	112.4	86.1	30.5%
Depreciation	1.3	1.1	25.5%	1.0	27.9%	4.5	3.9	16.6%
Tax	-5.1	2.6		6.4		8.8	13.7	-35.3%
Reported Profit After Tax	38.2	23.8	60.2%	23.1	65.6%	99.0	82.2	20.4%
Minority Interest	0.8	0.4	90.0%	0.5	61.7%	1.9	0.9	111.0%
Adjusted Profit After Extra-ordinary item	37.4	23.4	59.7%	22.6	65.7%	97.1	67.7	43.5%
AEPS (Unit Curr.)	9.6	6.0		5.8		24.9	17.6	
Equity	39.1	39.1		39.1		39.1	39.1	
Face Value	10.0	10.0		10.0		10.0	10.0	
			BPS		BPS			BPS
EBIDTM(%)	29.3%	30.7%	-140	27.7%	160	25.0%	23.4%	160
EBDTM(%)	33.4%	34.3%	-90	31.9%	150	29.0%	26.1%	290
PATM(%)	36.3%	29.2%	710	23.6%	1270	25.1%	20.5%	460

Source: Company & Nirmal Bang Research

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Consolidated Financials

Profitability (Rs. In Cr)	FY12	FY13	FY14E	FY15E
Y/E - March				
Revenues - Net	330.2	388.0	465.4	558.5
% change	-1.6%	17.5%	20.0%	20.0%
EBITDA	76.0	96.7	119.1	142.9
% change	-8.8%	27.2%	23.2%	20.0%
Interest	0.2	0.1	0.1	0.1
Other Income	10.3	15.8	19.8	22.8
EBDT	86.1	112.4	138.8	165.6
Depreciation	3.9	4.5	4.7	5.0
Extraordinary/Exceptional	0.0	0.0	0.0	0.0
PBT	82.2	107.9	134.0	160.6
Tax	13.7	8.8	28.1	33.7
PAT	68.6	99.0	105.9	126.9
Minority Interest	0.9	1.9	2.9	3.9
PAT after minority interest	67.7	97.1	102.9	123.0
Shares o/s (No. in Cr.)*	3.9	3.9	3.9	3.9
EPS	17.3	24.9	26.3	31.5
Cash EPS	18.5	26.5	28.3	33.7
DPS (Rs.)	5.0	6.0	6.5	7.0

Quarterly (Rs. In Cr)	Jun.12	Sep.12	Dec.12	Mar.13
Revenue including OI	94.6	91.6	95.9	103.4
EBITDA	15.4	24.6	26.5	30.1
Interest	0.0	0.0	0.0	0.0
EBDT	15.4	24.6	26.5	30.1
Dep	1.1	1.1	1.0	1.3
Other Inc.	3.5	4.0	4.1	4.3
Extraordinary	0.0	0.0	0.0	0.0
PBT	17.8	27.5	29.5	33.1
Tax	4.1	3.4	6.4	-5.1
PAT from ordinary activities	13.7	24.1	23.1	38.2
Minority Interest	0.2	0.5	0.5	0.8
PAT	13.5	23.6	22.6	37.4
EPS (Rs.)	3.5	6.2	5.9	9.8
Adjusted EPS (Rs.)	3.5	6.0	5.8	9.6

Operational Ratio	FY12	FY13E	FY14E	FY15E
EBITDA margin (%)	23.0%	24.9%	25.6%	25.6%
Adj.PAT margin (%)	20.5%	25.0%	22.1%	22.0%
Adj.PAT Growth (%)	13.8%	43.5%	6.0%	19.4%
Price Earnings (x)	31.0	21.4	20.1	16.7
Book Value (Rs.)	47.8	65.7	85.5	110.0
ROCE (%)	50.1%	48.7%	45.4%	42.1%
RONW (%)	41.7%	44.7%	35.8%	33.2%
Debt Equity Ratio	0.0	0.0	0.0	0.0
Price / Book Value (x)	11.4	8.3	6.4	4.9
EV / Sales	5.8	4.7	3.8	3.0
EV / EBITDA	23.1	17.2	13.4	10.6

Source: Company & Nirmal Bang Research

Balance Sheet (Rs. In Cr)	FY12	FY13	FY14E	FY15E
Share Capital	39.1	39.1	39.1	39.1
Reserves & Surplus	147.8	217.5	295.0	390.6
Net Worth	186.9	256.5	334.1	429.7
Total Loans	0.0	0.0	0.0	0.0
Minority Interest	0.9	2.9	5.8	9.7
Net Deferred Tax Assets	4.5	3.9	3.9	3.9
Total Liabilities	192.3	263.3	343.7	443.3
Net Fixed Assets	96.1	94.3	94.5	94.6
Investments	0.0	0.0	0.0	0.0
CWIP	0.0	0.0	0.0	0.0
Inventories	27.4	40.9	58.1	69.7
Sundry Debtors	0.7	1.5	1.7	2.4
Cash & Bank	131.5	190.8	259.7	363.4
Loans & Advances	11.5	21.8	27.0	32.4
C A L&A	171.2	254.9	346.6	468.0
CL & P	75.0	85.9	97.3	119.3
Working Capital	96.2	169.0	249.2	348.7
Total Assets	192.3	263.3	343.7	443.3

Cash Flow (Rs. In Cr)	FY12	FY13E	FY14E	FY15E
Operating				
Profit Before Tax	82.2	107.9	134.0	160.6
Direct Taxes paid	-13.7	-8.8	-28.1	-33.7
Depreciation	3.9	4.5	4.7	5.0
Change in WC	-0.6	-18.1	-11.3	4.2
Interest Expenses	0.2	0.1	0.1	0.1
Other Operating Activities	0.0	0.0	0.0	0.0
CF from Operation	72.0	85.5	99.4	136.2
Investment				
Capex	-10.6	-2.7	-5.0	-5.0
Other Investment	0.0	0.0	0.0	0.0
Total Investment	-10.6	-2.7	-5.0	-5.0
Free Cash Flow	61.4	82.8	94.4	131.2
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	-19.5	-23.4	-25.4	-27.3
Deferred Revenue Exp.	0.0	0.0	0.0	0.0
Interest Expenses	-0.2	-0.1	-0.1	-0.1
Cash Flow from Financing Activities	-19.7	-23.5	-25.5	-27.4
Net Cash Flow	41.7	59.3	68.9	103.7
Beginning Cash Flow	89.8	131.5	190.8	259.7
Cash as reported in Balance Sheet	131.5	190.8	259.7	363.4

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