"Zydus Wellness Limited Q1 FY-21 Post-Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q1 FY21 Post-Results Conference Call for Zydus Wellness Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Tarun Arora – CEO & Wholetime Director 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 1 financial year 2020-21. We have with us Dr. Sharvil Patel – Chairman; Mr. Ganesh Nayak – Director; Mr. Umesh Parikh – CFO; and Mr. Vishal Gor - Senior Vice President, Corporate Finance at Cadila Healthcare Limited.

The quarter gone by was an unprecedented one due to the spread of COVID-19 pandemic impacting our operations in early part of the quarter. As stated earlier we were agile and quick to respond to the unexpected situation of lockdown by resolving the logistic challenges in getting the required approvals for restarting our manufacturing plants and operating our chain of warehouses.

Majority of distributors could also get permissions from local authorities to open their business places. We at Zydus Wellness Limited have been committed towards safety of all our employees and business partners ensured that all required safety measures were implemented across all our locations.

While the sales for the month of April 20 was impacted due to COVID situation, the month of May saw a revival of sales growth followed by double digit growth in June. We have also witnessed softening of the key raw material prices during the quarter.

Let me take you through the highlights of the consolidated financial performance of quarter 1, financial year 2020-21. During the first quarter of financial year 21 our total income from operation stood at Rs. 5,374 million. EBITDA was up by 0.3% year-on-year to Rs. 1,223 million. PBT was up by 4.1% year-on-year to Rs. 831 million. Net profit stood at Rs. 892 million, up by 10.9% year-on-year inspite of decline in sales mainly due to better control over costs.

With that let me share some of the highlights of the operational for the quarter gone by:

We continued our thrust on marketing initiatives to grow the categories and increase market share for our brands during the quarter gone by. To narrate a few, on the Glucon-D front the quarter has gone by was impacted adversely due to COVID lockdown then followed by cyclone Amphan and early monsoon in part of the country.

Even in these adverse times we continue to use digital mediums to drive relevance of the brand. On the Complan front during the quarter gone by we launched Complan Nutrigro, a scientifically formulated range of health food range for toddlers which is 2 to 6 years old kids with a balance of 50:50 protein.

We continue to invest on the brands on digital media to increase the relevance of the brands during the lockdowns across the country. On sugar free front during the quarters gone by, sugar free has witnessed a very strong growth which was bagged by the launch of digital campaigns; stay home stay fit challenge to drive relevance of the brand. We reactivated the media campaign on sugar free grain to further drive our efforts of expanding the sugar substitute category.

On the sugar like front the brand witnessed very good traction despite COVID-19 and related lockdown. The growth was supported with media inputs through our campaign in digital media. On the Nycil front the brand was supported with social media promotions during the quarter. New hand sanitizer launch was supported by digital marketing campaign to spread the awareness.

On the revenue front being in the personal care space and discretionary nature the brand has seen substantial reduction in off take during the lockdown period. Post commencement of unlock in June the brand has seen revival. It was supported with digital marketing initiatives to sustain concentration even in lockdown period.

On the Nutralite front COVID lockdown impacted performance severely in institutional segment. Retail business recovered to some extent in May and June to drive the brand relevance during lockdown we use the digital medium as well. New product launches amongst the COVID situation the company's R&D team worked relentlessly on innovations which helped launch of new products under different brands.

Starting from January this year we have seen company has launched a series of new products as follows. Sugar free green which was re-launched in a new formulation and improved taste under the artificial sweetness category at the beginning of the calendar year. This launch was followed by hand sanitizer under the brand Nycil. Nycil sanitizer is proof of company's quick planning and execution which helped commercialize the production within a span of four weeks.

Further with the launch of Complan Nutrigro the company entered in to the toddler's health food green segment. The product will be marketed and distributed using doctor promotion route using the medical marketing route. To participate in a market dominated by franchises in the lower income segment the company is launching 75 gram sachets which will further help strengthen the Complan brand to gain market share.

To expand the product basket and the Nutralite brand the company is launching Nutralite Choco Spread in two flavors. It is initially been launched on the e-commerce platform and subsequently will be expanded to other channels as well.

As we speak we are about to roll out our latest offering Glucon-D Immuno Volts under the brand Glucon-D which are tasty energy bites and boost immunity as they are fortified with Vitamin C, Vitamin D, Zinc and Glucose. With the COVID crisis situation continuously evolving we continue to be optimistic and agile in our agenda which has also helped the company to launch series of new products in quick succession and get back to the new normal.

Thank you and we will now start the Q&A session. Over to the coordinator for the Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on Complan. Obviously Q1 was a good quarter from a demand prospective for Complan kind of products. So if you benchmark against the industry you have some data points on how you are done versus the industry and you said that 75 gram sachet will help you win market share, so again if you can elaborate why because most other players also have the sachet, so is it pricing or is it the chemist strong linkage which you have?

Tarun Arora: First of all we saw some loss in April month on Complan, which was because supply chains were down, but we have seen good traction on Complan in May and June and we believe it will be in line with the industry growths.

\` Talking about the sachets, what we are launching is a 75 gram sachet at Rs. 30. Our focus on this is not just at a competitive level, we believe that we have not been participating in this segment, which is a set of consumer food, who want to use Complan, but has not been serviced. So these are thinking of the unserved consumers who have a latent demand and we believe it will help us increase our penetration of the brand and Complan being stronger nutrition space should help us gain some shares there.

Abneesh Roy: Two follow ups there. One GSK said that they have gone for the entire quarter at 5%. If you could tell us how your growth has been and how much is the LUP percentage currently out of Complan?

Tarun Arora: Overall growth for us is almost flat because we lost in April, but at our overall quarter level, but that could be a function of how much is the pipeline and how much is what we will not be able to comment on that, but we believe it should be closer to in line with the category.

We are not participating substantially in LUP. We have a small presence in south with a Rs. 10 sachet, which also we are re-evaluating and we will come back on that. This is largely a kind of sachets, which sell both in North and West part of the country and constitute more than 10% to 15% of the category size in these markets. This will help us participate in that more constructively.

Abneesh Roy: My second question is on other category. So we have seen very strong growth for honey players for this quarter 70% growth and that was in fact impacted because of glass bottle start supply.

So because consumers are focusing on fitness, the non-diabetes customers who are using say sugar free is there some switch from that product to honey? I understand good growth, but are you seeing this trend and second Nutralite what is the B2B percentage of sales?

Tarun Arora: So overall sugar free has had a fantastic run last quarter. It is hard to isolate the diabetic and non-diabetics, these are things that we revalidating, but we believe home consumption has gone up and this has helped us. We believe also being more health conscious is helping us both amongst diabetic as well as non-diabetics. Diabetics may have been the larger share of contribution to growth for us. I cannot comment on how honey is reacting because we have no understanding of that. We do not participate.

The other point was on Nutralite, we have seen de-growth in that segment largely the institutional segment because we saw almost 75% of the brand served in hotels, restaurants and dhabas, the food service, that has substantially gone down. While there is an improvement from April to June, but it is still much lower than, it still does not cover up the gap that we continue to have especially.

Dr. Sharvil Patel: Currently with the data we have we believe that there is no switching from sugar free to honey, those are two different categories.

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

Tejas Shah: Sir, first if you can help us with some comments on category as demand scenario, which category actually surprised you and which in some way disappointed you in the last quarter?

Tarun Arora: So positive surprise for us was sugar free, the way it has panned turned out. It will be probably one of the fastest growing quarters in many years, so we are very happily surprised for that. We have also seen good collection on recovery on brands Nycil and Complan in May and June and Nycil has shown us a good resilient as a brand. We believe not just sanitizers, which topped it up, but even the talc has continuously do very well so we are quite positive on the future on how this brand has played out.

I will not be surprised, but we were slightly disappointed because Glucon-D was also recovering well, but due to early monsoon and cyclone in West Bengal, some of our recovery was impacted and that was a little bit of disappointment for us and that effected the whole category. So while we continued to drive our efforts and we worked pretty hard, but I think it is a larger category impact, which held us back, otherwise we were hoping to cover up a reasonable part of last year.

Tejas Shah: And sir, YoY GM contraction was significant and what we picked up last quarter from your commentary that there were some raw material payment was coming finally to us. So is it because of product mix adverse this time or higher trade schemes or discounts or lesser realization relatively?

Umesh Parikh: So actually if you see the gross margin has increased as compared to the last preceding quarter and that is because of the benign raw material prices.

Tejas Shah: But YoY it has contracted by?

Umesh Parikh: YoY it has contracted because of the higher manufactures and RPO prices in the early part of the quarter. Thereafter it just dropped, and our product mix also had played a role.

Sharvil Patel: But I think going forward you will see gross margins improvement because whatever fresh buying we have is that much lower raw material pricing now. So I think going forward you will see better realization.

Tejas Shah: Second on fixed cost if you see Tarun also called out that there were some cost control measures, but except A&P other line items had the inflationary trend on year-on-year basis. So any particular initiative that we have taken and still has not shown up in numbers and perhaps will show up in coming quarters?

Umesh Parikh: Fixed cost, particularly the other costs have gone up because of the onetime hits on account of SAP license and IT infrastructure expenses in the quarter. Rest employee cost is in line with our estimate, that is largely due to the one time payments and increments.

Tejas Shah: Okay, would we be able to call out that one-off amount or?

Tarun Arora: Yeah it will just be gone.

Tejas Shah: Okay on margins, obviously this is very volatile year and whatever guidance or thought process we had on margin trajectory for the consolidated companies does not stand true. So as we reset the base this year, what is the two year or three year outlook on how our margin trajectory will look like in next couple of years?

Tarun Arora: Are you referring to gross margins?

Tejas Shah: No, EBITDA margins.

Tarun Arora: EBITDA we certainly expect more EBITDA though it is very difficult at this time to tell you the predications or forecast of how EBITDA is going to turn out.

Umesh Parikh: But we continue to see bigger margins.

Tarun Arora: Yes, improvement in our EBITDA margin. I think we stand with this two year perspective of where we should be close to about 20% over next couple of years.

Sharvil Patel: If I can just elaborate on two other points. One is we believe that with the product mix that we are developing for the future with the second season that we are planning for in the next two years, where we make sales more comparable and also looking at the whole fix cost, which when we did the integration we did scale up our numbers, which will help us scale up our distribution, which is going to happen by end of this year.

So we do not see any meaningful further critically large investment in these areas. So over a period of time, you will see a good amount of margin improvement because I think for the next three years whatever we had to plan in terms of our capabilities on infrastructure we have done so.

Tejas Shah: On new product launches what we have already launched that is very encouraging and very innovative, so the FMCG sector seems to be divided on NPD for this year at least because A section believes that since it will be volatile year and challenging year on supply side, communication on every aspect, we are actually postponing NPD pipeline to next year and one section like it seems we are also part of it believes that this year should be treated as any other year where NPD should be focused upon.

So how do you actually mitigate that, there are supply side volatility, we are hearing another second, third round of lockdowns also happening now, standalone one? So is this the year, do you fear that some of the innovations will not actually resonate with consumers and might get lost?

Tarun Arora: Let me take this one. I think we have been very choosy on what we are launching in terms of NPDs, which we believe resonates with the current environment whether you look at sanitizers or Immunovolt. I think Complan Nutrigro is something we worked for almost a year and this we did hold it back because we believe it is a long-term play and even at this time, it may take a little bit harder to build given the challenges in the supply chain or with the external constraints.

It is a long-term play and we believe there was no point in postponing it. So each of these launches whether we are doing, I think we have thought it through. Let me take the example of even the chocolate spreads that we are launching in Nutralite is going through the e-commerce first. There is a large consumption enhancement, which is happening on the e-commerce channel at home consumption of food products and therefore it is focused on that.

So each of these there is sufficient reason for us to succeed even during these challenging times and that is how we have sustained on those. Large innovations which can get impacted by the environment, which need very large above the line investments, I do not think we are getting into any of those launches at this time. So those we will also have to wait, but these are very relevant in the current situation. They are also being sharply targeted at the right set of audience spoke in to this.

Moderator: Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: I had two to three questions. One is that this quarter as you see you have already mentioned that Nutralite decline came because of no sales in restaurants and things like that, basically the institutional sales did not happen. So sir, what I have observed about Nutralite, it is not just this quarter that it has declined, it has been declining over several quarters now. So what is the outlook on Nutralite?

Tarun Arora: I think that data is not correct. Nutralite has been growing over last three to four years on a consistent basis. In between, yes there were one or two quarters when we had a lower growth or flattish number. But otherwise the brand has been consistently growing. I think it came up last quarter also, where we mentioned that we did have growth. So we are quite confident on Nutralite growth and this time it is a specific market construct, but otherwise Nutralite is showing a pretty consistent growth as a brand.

Shalini Gupta: Okay so what kind of growth are you looking at 10% or so?

Tarun Arora: So on a consistent basis, Nutralite has been growing and we believe a good double-digit growth.

Shalini Gupta: Okay and then sir my second question, you had mentioned about some other participants had asked about gross margins just want to add more questions. I mean we had milk which was down almost 40% and palm is up about 15%, our EBITDA gross margins are down. So if you could just please speak about that again?

Tarun Arora: Gross margins were down because of the key raw material price is high that I have mentioned earlier. Now we are seeing the prices have come down drastically and we see a real improvement in the gross margins going forward.

Sharvil Patel: So let me explain it better. We produce SMP much earlier to prepare for the reason and everything, so currently we were consuming our SMP stocks, which were with the higher milk conversion prices and now with the lower milk conversion prices, you will see that reflection in the coming quarters.

Shalini Gupta: Okay and sir I mean within the raw material basket, which would you say if you could just rank the products in terms of their contribution to the cost, like number one is milk, number two is palm, third is sugar. If you could just rank these?

Tarun Arora: So number one is milk, number two will be largely DNH which is basically a corn based product for glucose and number three will be sugar and RPO. These are the top four items.

Shalini Gupta: Sir, what is the outlook on ASP?

Tarun Arora: So while we intend to maintain at close to 13%, 13.5% on an annualized basis investment to sales, I think in these times we will be fairly cautious and we will go by what is right, which the P&L can afford and also what the market demands because we have seen early part of last quarter where the supply chains were interrupted, if you could supply, you could sell it. So we are taking a conscious call on this, so nothing specific to guidance in short. In next couple of quarters, but our annualized approach remains consistent closer to 13% to 14% kind of utilizations.

Sharvil Patel: Okay, so I think Tarun is right in that and I think we are trying to opt for more digital means of communication right now when we feel though they will get better traction in terms of our brands.

Shalini Gupta: So you said 14% to 15%, actually one is not very clear you said 14% to 15% of sales, right?

Tarun Arora: No, 13% to 14% right now.

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

Kaustubh Pawaskar: Sir, my question is on Complan. Recently there is a strong demand for immunity boosting products and you are now launching pouches. So will it help you to gain market share in the quarters ahead because launching LUPs will also open doors for you to get into the rural market and where the penetration is low for HFD. So will it give you scope of improving your market share in the near term?

Sharvil Patel: Yes, I agree that some of these ideas that we are trying now will help improve our penetration and improve market share.

Kaustubh Pawaskar: Sir, in quarters ahead like you said that sugar free is doing extremely well for you, it is growing. You have seen recovery in the Complan. So just barring these two categories, rest of the category, for example EverYuth Peel-Off it is more of an out-of-home kind of a category and Glucon-D the season is almost over and for Nutralite the institutional portion will take some time to recover.

So considering all these factors, so next three quarters in terms of revenues is it fair to assume that revenue would be more or less flat or there would be a marginal decline or you expect growth rate to come back in the quarters ahead? I am not talking about quarter 2, may be second half things would be better than what it was in Q1 and Q2?

Tarun Arora: We expect the growth to be back for us. Sugar free, Complan take us reasonable part of our revenues in quarter 2 and quarter 3 as the summer season brands come down and both these brands we are still hopeful of a positive trajectory going forward. So I think we have still positively disposed towards the growth for the next three quarters as well.

Kaustubh Pawaskar: Right sir and sir during this lockdown and supply disruption era, did you see any major change in your working capital or still it is in a comfortable zone?

Umesh Parikh: We will see a major change in the working capital. It is still in a comfortable zone. In fact we have also witnessed better collections on the back of RTGS facility that we have used.

Moderator: Thank you. The next question is from the line of Raj Mehta from PPFAS Asset Management. Please go ahead.

Raj Mehta: First question is relating to the interest cost. So in the last call you had said that you are looking at evaluating the options to reduce interest cost given that the interest rates have fallen. So if you can give an update on that?

Umesh Parikh: We are still accessing the opportunities how we can bring it down. We are in discussion with the holders of the bonds and we are trying to lower down our interest cost by buying that by either by the company itself or by affiliate agencies

Raj Mehta: Okay and second question is more on the business side. So in your press release you said that June witnessed a double digit growth in revenues, so is it mainly because of the pent up demand or you feel that in the current quarter as well that double digit growth is sustainable?

Tarun Arora: I think right now the situation is very volatile. We still believe the growth is possible. We are hopeful of our double digit, but we will play it as month by month because situation is changing every day and these many lockdowns have surprised us and the industry has learnt to live with that with many of these things supply chains have improved, but we have to take it every day as it comes. I think growth is still possible, what level of growth we will have to wait and watch.

Raj Mehta: Okay and my last question is relating to the category growth and the market share data that you share every quarter. So if you could just share that data?

Tarun Arora: So we do not have the access to the numbers we had because some of the numbers we have not bought into. So once we have that we will share it on our website and to all the investors, industry market share data.

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

Shirish Pardeshi: I have few questions. You have made some interesting launches in this quarter, so what I am trying to see that if you can explain Complan Nutrigro what we have launched, what kind of audience or penetration or distribution we are looking from this product or is that extension is to widen our franchise?

Tarun Arora: Hi Shirish, we are all safe and thank you for asking and hope you are also keeping safe. Our launch on Complan NutriGro is to cover a gap. I think Complan has been the franchise extends from 2 to 20 years focus segment and 2 to 6 has over the last five to ten years has emerged as a separate segment where we thought we were under represented and to address this segment, which has a differential nutrition meet.

We have launched this product, which is inspired by mother's milk which has a right amount of protein, which is 50% casein and 50% whey. And since it is a superior nutritional product, we felt it cannot go just by advertising on TV. But we said that we have to leverage our growth strength which is using the pharmacy channel and the doctor recommendation.

So we have largely focused on the right now the brand will go through the doctor's recommendation route, doctor's prescription route and mainly focused on the pharmacy channel and then as it progresses we will build it up further. We have about 300 them are supporting this brand at this stage.

Sharvil Patel: Let me add things to what Tarun said. So everybody the history of Complan or any of the competing brands have been there had a very strong medical connect and a doctor connect and which for Complan since its transition into different organizations it has been lost completely. While the other competitive brands have always continued to talk about medical nutrition, We believe this product is scientifically the right product for the toddler range. We believe that we will again the commitment of the medical fraternity in terms of its application and that will not only the new launch but also help overall rub off on Complan on other front because scientifically and medically this is one of the most superior product in the market and we want to communicate it with the right medical education for it.

So we believe with more than 300 sales reps detailing it to medical doctors this will give a further boost to the Complan and if we see a good traction and more movement, which we are very confident of, we could see further extensions by this route.

Shirish Pardeshi: Thanks for that commentary, Sharvil. What I wanted to understand are we going to advertise this scientific claims to make this product more visible in terms of right audience?

Sharvil Patel: The new brand, no.

Sharvil Patel: We will mainly focus on the base Complan, core Complan on advertisement.

Shirish Pardeshi: Related question on Complan. If HFD penetration is 24% to what will be the level of penetration for Complan in current context?

Tarun Arora: I do not recollect the exact numbers, but my guess is 12%, we will have to come back and share those numbers too.

Shirish Pardeshi: Again on new product, we have launched this Nutralite Choco Spread, what kind of opportunity is this and maybe if you can give highlight what are the drivers for us to launch this product and where we think we have a success in say may be two years from now?

Tarun Arora: So Nutralite as a brand has built itself as a healthier alternative to butter and we believe our strategy going forward is two sectors and I will explain the first sector and the other sector may be a quarter later when we have more products to share.

The first important thing that we want to extend is being a healthy alternative, I think it can extend itself into all kind of spreads that go on the family usage, which could be that we launched earlier, all chocolate spreads. So which are right now substitutes for butter or any of the kind of spreads, butter, jams all those kind of things. So we are focused on providing healthier alternative to some of these spreads and that is why when we launched Mayonnaise we had done the fortification of Mayonnaise.

In this we have launched two variants. One is calcium enriched, which is a substantially better bioavailable calcium on one variant and the Quinoa enhanced variant, which one knows that Quinoa is known for protein so it is protein enriched product. So these are two products. In fact quinoa provides the crunch, which makes it even more impressing.

So it is a taste and health combination, which we are focusing on and we want to play a larger game in the spreads mainly through the retail. This one we believe we are starting with the e-commerce then we will take it to the high-end retail only in the next phase. Then we will take it lower down.

The category is relatively small, sub Rs. 200 crores, but we can take our valuable share there and overall enhance the usage of Nutralite for the entire family and make it a more interesting brand. There are few other elements, but that would need a far more detailed answer to this.

Sharvil Patel: Also to talk on the larger broader strategy. I think we believe in two clear choices**,** right. One is we strongly believe that we have well positioned to play an important role in the breakfast table. So whatever is right proposition that we can provide for the breakfast table, I think we have sufficiently well in the share of voice there. So we believe that is one area we will use with Nutralite to build on to that with the other brands that we are there and I think some of this over a period of time will make more sense when we are able to be a meaningful presence in terms of share of wallet on the breakfast side.

Shirish Pardeshi: And see that Nutralite which predominantly remained for a longer time goal where we always had a volatile performance and now we have some new products coming in. Slowly I am thinking that now you guys are getting into food space. So is there further things which can come up, sub-categories or adjacencies on Nutralite?

Tarun Arora: Yes, we are working on that and we shall share over the next few quarters. So we want to make it a stronger food brand, but we will share that as we go.

Sharvil Patel: But I think just to add to it, I would say over last three, four years, the volatility has been pretty low. Nutralite has been a consistent double-digit growth. One or two quarters here and there, but largely it has now become consistent.

Shirish Pardeshi: I got that, Tarun. What I was trying to hint at is that our dependence on HoReCa is so high. And whenever this channel has issues, or maybe milk-based butter is cheaper, we see that. So I think, after a long time, and I really congratulate the team that we have seen a good traction in that.

Because I was trying to build in the confidence myself, is that this continuation of aggression which we have seen on Nutralite will have further legs to move faster?

Sharvil Patel: Yes Shirish. I think what you say is right and you know, one, we have to also, we are looking strategically at our capabilities. We are a very strong capable company in terms of milk procurement and milk sourcing. While we do not have any intention of getting into milk category and milk directly, but we feel we can do a lot of things with Nutralite in this space.

Shirish Pardeshi: Okay, last question on new product. We have seen that you have also launched Glucon-D Immunovolt. So what kind of audience we are looking in may be three years down the line? What kind of contribution we can look at from this?

Tarun Arora: It is a promising area. I think we have seen, you know there are several extensions of Glucon-D that we have been evaluating since we got into this acquisition and we believe that there were at least three to four good, interesting opportunities. We had to select the tablets, volts, already in our kitty. And we were looking at re-launching it to play a more valuable gain there.

And due to our homework done, when we saw the situation where we could re-position it, we had the vitamin C and D already available, we said we could re-position it as an immunity booster. And that is how we positioned it.

We believe there is a sizeable play there in the whole candy space, where we are giving immunity as well as energy. And therefore, scope for a functional product in the candy space. It is a sizeable space. We believe, it could be anything from a 10% to 15% of the brand over a period of time. We will have to see. We will, this is a dynamic situation that we are quite hopeful of growing it well.

Shirish Pardeshi: Okay, just last question on, what kind of new product contribution we can expect may be following year? I mean, this will get stabilized absolutely in second half?

Tarun Arora: So, one of the benchmarks that I would look at is, my target was to, like 5% of my revenue should come from products which we launched in 36 months. I was hoping to do that over next two to three years. I think that number needs to be revisited and maybe we could do it by next year, I am hopeful. Well, we will see how some of these launches also perform. So this is something we will be happy to share as things shape up.

Moderator: Thank you. The next question is from the line of Lakshmi Narayan from ICICI Mutual Funds. Please go ahead.

Lakshmi Narayan: Couple of questions. First is in terms of priority you have acquired three brands, which is Glucon-D, Complan and Nycil, right? So, which in your scheme of things has the highest potential of growth? If you can just rank it over the next five years?

Tarun Arora: Hard to distinguish because each brand has good double digit growth potentials. Nycil has both the years performed fairly well and consistently doing it. Glucon-D has its own growth opportunities. Despite a difficult season this time, we are still very, very positive on growth potential and with extensions that are possible.

Complan of course has had a much larger play in the past and just the recovery and regain of share of those opportunities for getting a double digit growth. So I believe all the three brands have opportunities of double digit over next four to five years.

Sharvil Patel: I would suggest to Tarun just to add two things. One is we believe that, if you look at inherently, both Glucon-D and Nycil will definitely be the strong proposition because they are market share leaders and we believe that they have a very strong proposition to play. Complan, we are the fifth ranked brand. So we have a long way to go on that.

But we also have a very strong view that with our capability on formulation research, R&D, and medical education, we can slowly rebuild this brand to its earlier glory days where it was at about 10% to 11% share. So Complan is a little longer process for us to get back to it, because we are not the leader. The other two brands, we are very confident that we can continue to gain share.

Lakshmi Narayan: And, that is interesting to know. And in case of Nycil, you are almost 35% of the market, right? Now, and the market continues to grow at 8.3%. So is the market growing faster than for the regular talcum powders? The question is that who is the number two and how far are we from number 2 in terms of Nycil? We have around 35% market share, I believe.

Tarun Arora: So in the functional talc space, which is about Rs. 750 crores, we are the leader at 35% kind of share. The category, yes you are right, over last two, three years, four years has been growing at single digits. Last one, one-and-a-half year we have seen growth ahead of the category. And that has been our opportunity where we believe we want to grow the whole category and be the lead in that. That is where our innovations will play and our proposition will play.

And I think the number two players are some distance away. So that is not too much of an anxiety for us. For us the focus is growing the category because gaining will be a short term view, but to build a brand from a long-term view, like you asked for five years, will happen only when we grow the whole category.

Lakshmi Narayan: And Glucon-D is also growing at almost 10% growth, right? And what is propelling the growth of Glucon-D? I mean, the category I am talking about because it is quite interesting to see a 10% growth in the category?

Tarun Arora: It is again a Rs. 850 plus crores category where we are the leaders close to about 59% share. The category has grown due to the mix of value and volume. Volume has come largely on back on especially in last one-and-a-half years. There has been some gains on penetration levels. And that is a good story.

We believe that we stay on course, focus on getting new users in through better proposition, communicating the benefits of Glucon-D, we can grow the category there also, being the largest player. And that will be to everyone's benefit. But right now the mix since last year has been a mix of volume and value.

Sharvil Patel: I just want to add two points to it. One is, still Glucon-D is a very highly skewed product towards the summer, and our endeavor for the next couple of years is to make sure that we plan for something which we call the second summer. And also plan in the mid-term how do we have something more important for the second half of the year.

And lot of innovations are in play to do that. Immunovolt is the first one where we believe that it can have more traction throughout the year. But we believe it is some more innovations that we will bring. We will have a more balanced scale where we will not be only skewed towards the summer.

Lakshmi Narayan: Interesting, and just one last one question. In terms of the geographical spread of Complan, how is it and what have you done to improve the fulfillment rate in stores? And both in terms of availability as well as the SKU assortment?

Tarun Arora: Sorry, could you please repeat. What have we done?

Lakshmi Narayan: The first part is the geographical mix of Complan availability, okay? And any color on their mix in terms of modern etcetera. That is one part. The second is that from the store fulfillment efforts, right, anecdotally we hear that Complan is not available and if it is available, it is, the assortment is not available, etcetera. What have you, you know, what are the plans to improve the fulfillment rate of availability as well as the SKU availability?

Tarun Arora: So, I think the geographic mix, historically has been the biggest markets for us, maybe in West Bengal and TN. Over the years, over last three years, we have seen some north-west markets also of UP, Bihar and Maharashtra also adding substantial value to the brand. So we believe there is potential for growth across the country. Of course, different by different states.

As far as the channels, etcetera is concerned, we have substantial focus on driving the e-commerce channel which was under leverage historically. And we have seen disproportionate growth through the e-commerce. Now, it is rather aided by what we have seen in the last quarter lockdown period also where e-commerce has grown, but our efforts had started right when we had acquired, when we started indicating the business.

Modern trade also, the initial effort was a lot on B2B. We have scaled in our B2C reach on modern trade as well. As far as direct distribution is concerned, we have integrated the whole distribution teams. As we expand our direct distribution together, which has got delayed by a quarter due to these lockdowns, hopefully by end of December 2020 we will do that, I think we should see substantial improvement in the retail reach as well.

The one focus that we are increasing on within the sub-channels are general trader's chemist availability, which should help and this will also add to the number of outlets that we are available in.

Moderator: Thank you. Next question is a follow-up question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Yes, couple of follow ups from my side. Tarun, the initial remarks you spoke about sugar free actually surprising as positively. So any structural read through over here or was it just a tactical buying from consumer side because of the lockdown and all?

Tarun Arora: So there are two parts. I think the initial recovery on sugar-free did come because there were regular consumers and due to retail gap, it got covered, stop in pipeline. But what we have seen, one fundamental shift is that consumers are consuming a lot more food products at home and it has probably become a part of those people.

And as the concern on the fitness, as less people can go out and exercise, they area using, they are cutting calories through the right food that they consume. And now hopefully some of the people are also more concerned about the comorbidities and therefore more diabetics are also consuming. So these are the reasons that we have picked up from whatever consumer interactions we have been able to do at limited level.

Tejas Shah: Sure sir. So at least some of these reasons are here to stay at least for the near future?

Tarun Arora: Yes, in near future, because that is one of our major concerns. But we believe yes, some of these will play out over next few quarters as well.

Tejas Shah: Second, Dr. Sharvil actually spoke interestingly about the advocacy route to the market of MFDs or other nutritional products. Now there is a new competition in the market. Was this taken charge of a very big brand and they are just re-defining the go-to market strategy over here by using their aggressive campaign of LUPs or more voice share, brand share, distribution share.

So where do we see our strategy in, amidst then because, we unlike them we have a very good established network and advocacy route. So do we actually, and then there is another angle that rural penetration will be led by perhaps that strategy whereas urban will be cracked by through advocacy routes. So where do we want to spend our energy initially as we try to revive some of the market share there?

Tarun Arora: So the way we look at it is, I think there are two or three parts that will play out. I think from a go-to market like I explained, there are, we are focusing on only two parts and we will expand beyond that. One is our core brand, which is clinically proven, and it plays out more in seven to fifteen years of age, where we are using our existing go-to market plus a bit of advocacy.

We are strengthening our core by filling up the gaps, whether it was not playing in sachets earlier, strengthening our e-commerce, a better play in modern trade. So there are clearly opportunities within the channels that we service. A stronger play, a better play, more competitive play, so that we are covering those gaps. We are supporting the brand with a right kind of consumer engagement so that it is participating with some of the best of our driving offers like, currently we are running Hot Wheels and Barbie.

On the other side, we believe like Dr. Sharvil explained, the strength of the parent of doing the doctor advocacy, which will have two roles. One is establishing Complan Nutrigro as a standalone variant, especially for two to six years and will add to the share that we play. And overall equity of Complan as a superior nutrition provider. So these are the ways that we believe in short to medium term, which will help us compete and gain share.

I have mentioned that in next 12 months I do expect a 50 to 100 basis points increase in share with all these actions in place. And then we will share more as we, as the rest of the parts of the strategy play out.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Tarun Arora for closing comments. Thank you and over to you, sir.

Tarun Arora: Thank you everyone. Thanks for participating in this call. Please stay safe and we meet again in next quarter.

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