"Zydus Wellness Limited's Q4 FY'21 Results Conference Call with Analysts and Investors"

May 10, 2021

MANAGEMENT: **MR. TARUN ARORA– CHIEF EXECUTIVE OFFICER, ZYDUS WELLNESS LIMITED**
DR. SHARVIL PATEL – CHAIRMAN, ZYDUS WELLNESS LIMITED
MR. GANESH NAYAK – DIRECTOR, ZYDUS WELLNESS LIMITED
MR. UMESH PARIKH – CHIEF FINANCIAL OFFICER, ZYDUS WELLNESS LIMITED
MR. VISHAL GOR – SENIOR VICE PRESIDENT (CORPORATE FINANCE), CADILA HEALTHCARE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Zydus Wellness Limited Q4 FY'21 Post Results with Analysts and Investors. If a participant is connected on both the webcast and the audio bridge, you are requested to mute the audio from the webcast to avoid echo. To ask a question, participants are requested to click on the link for instructions to dial into the audio call and to ask their questions. I now hand the conference over to Mr. Tarun Arora, CEO. Thank you and over to you sir.

Tarun Arora: Good afternoon and welcome to the post results teleconference of Zydus Wellness Limited for Q4 Financial Year 2020-2021. 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.

Amidst the resurgence of COVID-19 during the Q4 of financial year 2021, there have been least disruptions to our operations and supply chain, as a result of which we could close the quarter with high double-digit net sales growth of 23.9% on year-on-year basis. The year gone by has been very eventful and challenging for us with COVID induced setbacks impacting sales of our key brands like Glucon-D, Nycil, Nutralite revenues. Despite the same, we have managed to achieve satisfactory performance during the year and achieved a growth of 6.9% on net sales and 5.7% on total operating income respectively over the previous financial year. We have witnessed improvement in EBITDA margin by 0.28% during the financial year 2021, largely led by synergy savings and savings in operational cost. We could achieve this EBITDA margin improvement in spite of the pressure on gross margin due to increased commodity prices and inflationary trends in the packaging material prices.

Let me take you through the "Highlights of the Consolidated Financial Performance of Q4 Financial Year 2021." During the Fourth Quarter of Financial Year 2021, our total income from operations grew by 24.2% to Rs.6,057 million. EBITDA was up by 39% year-on-year to Rs.1,450 million. PBT before exceptional items was up by 106.3% year-on-year to Rs.1,327 million. Reported net profit was up by 92.7% year-on-year at Rs.1,331 million.

Coming to the "Annual Consolidated Financial Highlights", our total income from operations increased by 5.7% year-on-year to Rs.18,667 million during the year. Our EBITDA was up by 7.3% year-on-year to Rs.3,444 million. EBITDA margins as a percentage of total income from operations stood at 18.4%. PBT before exceptional items was up by 47.7% to Rs.2,443 million. Reported net profit was down by 16.2% to Rs.1,187 million; however, the adjusted net profit before exceptional items was up by 34.9% to Rs.2,509 million. Our consolidated cash position stood at Rs.2,527.1 million including investments made in liquid funds. Our consolidated CAPEX excluding goodwill for the year was Rs.209.4 million.

With that, let me share some of the "Highlights of the Operation for the Year gone by." We continued our thrust-on marketing initiatives to grow the categories and increase market share trends of our brands during the year. To narrate a few, on the Glucon D front, during the year the brand got impacted adversely due to COVID lockdown, Cyclone Amphan and early monsoon in some parts of the country. Despite this setback, we have stepped up our investment on the brands, the new communication and competitive consumer and **trade offers**. We also launched Glucon-D ImmunoVolt to tap the heightened need of immunity products for kids which was supported by TV and digital media initiatives.

On the Complan front, the brand witnessed high double-digit growth for the quarter and high single-digit growth during the financial year gone by. We continue to invest behind the brand through various media, digital initiatives and consumer offers.

We continue to drive our penetration in sachet market with distribution drive and TV, media supported targeting regions. We recently launched a fresh communication which elevates the financial benefit up to aid faster growth. The campaign is being supported on TV print and digital at an all-India level.

On Sweetners front, on the back of increased home consumption during the COVID lockdown, Sugar Free has witnessed a strong double-digit growth during the year gone by. We continue to invest behind the brand through mainline and digital media. Sugarlite almost doubled on a low base during the year. The growth was supported through media along with consumer offers and relevant channels and media focus on regional markets.

On the Nycil front, the brand witnessed a strong double-digit growth during the year. In Q4, Nycil also extended itself into a new format of soothing body mist, building on the expertise to treat summer-related fatigue and skin rash problems.

On Everyuth front, during the first two quarters of the financial year, the brand got adversely impacted being in personal care space and discretionary nature. However, the revival of the brand from Q3 onwards is significant, the brand has witnessed actually strong double-digit growth in fourth quarter. We continue to back brand with investments in TV campaigns and digital media to engage with consumers.

On Nutralite front, COVID lockdown impacted brand performance really in institutional segment. The brand witnessed sequential recovery month-by-month and has now reached pre-COVID levels during the Q4. With the launch of Nutralite Doodhshakti Probiotic Butter Spread and Nutralite Doodhshakti Protein in February '21 we have entered the dairy category space. The new launch was supported by the print and digital campaigns. Nutralite Choco Spread which was launched in July 2020 is growing steadily and the same was supported with digital campaign.

On the go-to-market front, falling on the action on Project Vistaar, we already have reached direct distribution to five and a half lakh outlets by end of Q4. eCommerce grew by more than 250% for the current financial year accounting for almost 3.6% of the domestic revenue.

International business has seen a growth of more than 200% during the year. The company has entered new countries like Nigeria and Taiwan. International business accounts for more than 3% of the consolidated.

As per the MAT March 2021 report of Nielsen, Glucon-D has maintained its number one position with a market share of 58.4% of the glucose powder category. Complan has market share of 5.5% in our MFD category. Nycil has maintained its number one position with a market share of 35.8% in Prickly Heat Powder category, which is an increase of 225 basis points over the same period last year. Everyuth Scrub has maintained its number one position with a market share of 35.8% in the facial scrub category which is an increase of 174 basis points over the same period last year. Everyuth Peel Off has maintained its number one position with a market share of 77.9% in the Peel Off category. Everyuth brand is now at number five position with a market share of 6.1% in the overall facial cleaning segment.

As the second wave of COVID-19 has hit India with a very sharp rise in cases and state-specific lockdowns and curfews imposed, riding on the back of learnings of previous year, the company is in a better position to tackle the supply chain disruptions and other operational challenges in the coming quarter.

We are committed to safety of all our employees and partners and we are taking all the necessary precautions and measures. We hope the impact of second wave will pave down soon and the economy will be back on its feet.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on MFD. You are the number four in terms of market share. So wanted to understand now market leader has come out with SKU at Rs.2 pricing and at Rs.5 they have given 20% extra grams. So, what is our response to this? And could you discuss in the last one year in terms of product innovation and in terms of distribution scale up, what are the key achievements?

Tarun Arora: Thanks, Abneesh for asking this. From our current perspective, I think the market opportunity is in the nutrition space as we see it, and obviously every company will have a different view, as we see, nutrition is not a one-time opportunity and we believe nutrition is taken over a period of time. For us the MFD category will grow when people use it more and more often. We do participate in sachets with Rs.5 and Rs.30 in different parts of the market because there is a market which has grown and we believe participation is necessary. But we don't foresee ourselves as driving those spaces. So, we are not right now looking at Rs.2 sachets and we think it is relatively value eroding from the business point of view, and it doesn't do service enough from a consumer view perspective, that is our view. We will see good growth in the larger formats and we are continuing to propel ourselves in that direction. We have seen our distribution get revived to a four-year high, which Complan has seen. So, we have crossed 5.60 lakh level as reported by Nielsen in terms of availability. We are focusing on providing better value to consumers through our proposition. And we have seen good response from consumers and therefore last two quarters in particular has seen good double-digit growth on the brand back-to-back two quarters. And we believe if we stay on this path, we will have more consumers taking on to Complan. That's the approach we believe which will work. We have a differentiated proposition which is getting good response with the consumer. So better distribution, right proposition will help us win in the marketplace.

Abneesh Roy: Second related question was on chemist shop. What percentage of sales was there in pre-COVID, any number you can share? And because of the current wave-2 restrictions, are you seeing a big scale up in the chemist as a percentage of sales? And are you over-indexed in your categories versus the industry in chemist shop?

Tarun Arora: Zydus Wellness has always been higher indexed on chemists historically led by Sugar Free. So even before we had acquired Kraft Heinz, we used to be in the top quartile in chemist distribution and we continue to do so. So post integration also, we continue to focus on chemist. Last year when the lockdown happened and a whole lot of grocers were inaccessible, we had dialed up the chemist channel to go beyond Sugar Free and we focused Complan, Glucon-D and Nycil also to be higher available, even Everyuth tends to do well in this channel. So, we continue to be higher indexed on chemist channel and we see good response. In the second wave that we are facing now, while we push them a little higher, I don't think we've had to do something extraordinary from the chemist point of view because grocers are better off this year versus last year. But as a company, we believe chemists are important to us being in the wellness space and our brands being focused on that and typically our market shares, whether it is Sugar Free or Complan or Glucon-D, we tend to do well in these this channel. So, we are focused and slightly higher indexed within the categories as we play.

Abneesh Roy: Last question on rural demand, in April, any signs you are worried this time because of the wave-2 rate is progressing, it becomes part two stressed out in terms of time periods?

Tarun Arora: The way last 45-days has been from whichever perspective you come from I think very hard for anyone to have forecasted what's going to happen. I am actually worried from a rural perspective because rural was really the backbone of revival last year and that really helped. So, initially rural was not impacted and had also a good monsoon. So that really helped last year in revival and as the metros and urban pop strata came back, we had a reasonably good year despite all the lockdowns. I would say this year rural is more impacted, 45 days maybe a short time, but there is a risk of demand destruction across the thing. So a little hard to predict, but I am, yes, anxious and we are looking very closely, we are seeing a lower than last year the contribution of our superstockists business which largely caters to low urban pop strata as well as rural. So at this time, yes, we are concerned, but I don't have a data to predict the future.

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

Tejas Shah: Congrats on good set of numbers, but just to understand the momentum here better, so for most of the FMCG companies, we are using this two-year carrier because the base quarter is not of much use because of the disruption. So, I understand that you don't have the data in public domain, but indicatively if you can help to understand that on two years CAGR, consolidated base, how bad or how good that number will be versus a published number?

Tarun Arora: So, if I were to give you a two-year CAGR from our internal sales numbers, it is about 8%, but with the exception of Glucon-D which had a late season start because typically the build-up starts from January, so it had a little late start but picked up well in March. Most of the brands are on a double-digit CAGR. So, we've had a good run in Glucon-D in March. So, a little late start and typically every year is different on Glucon-D. So, for the quarter it is single digit CAGR at 8% but most of the brands have done a good double digit CAGR.

Tejas Shah: Second, I understand you just spoke that visibility is very low considering where the situation we have been in for last 45-days. Last year also unfortunately, we are almost in a similar situation. So at least versus that wave, this wave is much more difficult to navigate in terms of demand, as you mentioned that rural is also disrupted. Or you believe that at least a point-to-point in terms of the way we manage large cycle, the cycle should not be that bad on YoY basis going ahead?

Tarun Arora: So, two points to it. I think clearly everyone has learned the lesson. Our supply chains are far more resilient, government is more supportive, people are not closing kirana. So, in my perspective, we will be better off than last year in terms of our ability to supply even in the worst of the lockdowns this year, there are local lockdowns, they are very hard in some places, they are less hard in others. So, our ability to supply is far better and we learned our lessons. So that we will be better off. Last year the demand was consistent, there were pipelines which got emptied, and there would have been some losses in demand, it was unfulfilled demand and it would have lost. The concern is that the consumer offtake with the confidence level being low and with so much of concern and gloom at some places, that is a concern, but our ability to service demand is good. So, what worked in our favor is most of our products tend to be essential in nature; Sugar Free, Complan, and we are seeing good resilience of these products and therefore I am hopeful we will be able to navigate this in a positive way better than last year.

Tejas Shah: Third, on Project Vistaar, we achieved our initial target of 5 lakhs outlets, indirect reach. So, any plan for this year considering that we are in midst of disruption or do you have a firm plan irrespective whatever happens on that front?

Tarun Arora: So, our original plan was to cross half a million, we have more than crossed that number, we are closer to 5.5 lakh outlets. So in a way we have done with, we will continue our journey, there are some pockets which have the scope for improvement, it may not run as a separate large project like we did in a limited time about five, six months, we moved over 3.4 lakhs to 5.5 lakhs. So that was a very focused program. Right now, we will continue our organic growth journey of our distribution and we believe there are opportunities as we go. There are also opportunities of strengthening our distribution by making more products available, so broad basing our servicing to them. And third is the digitizing of it. So, we are in the process of running our Salesforce automation, which we already completed in one region, which was a pilot, we will complete across all four regions. Along with that geotagging, geofencing, and ensuring all our data is in control so we can service and get better ROAs of our growth. So I believe we will increase our distribution, but we will also improve the quality of servicing these out as before, which is very important given the environment and therefore a better handle on the digital part of distribution.

Tejas Shah: Sir, within direct reach, which will be our most distributed brand in terms of footprints?

Tarun Arora: As reported by Nielsen, the largest distributed brand from availability perspective is Glucon-D. From our direct distribution, I think Glucon-D and Complan tend to do very similar even Sugar Free is not too far. Glucon-D has a substantial additional reach which we get through wholesale because of the scale which comes in a very short period of time, but on a consistent annual basis, all these brands are able to be serviced equally well across. These two specifically tend to be the largest direct distribution.

Tejas Shah: So, we have done well on gross margin despite the overall raw material pressure that we are hearing and seeing in other numbers also. So, any pricing interventions that we made this quarter and are we planning any such interventions in coming period?

Tarun Arora: So, basically, I think we are facing headwinds in terms of commodity prices specifically in our palm oil. However, this quarter, we had couple of advantages because we cover our milk sufficiently well in SMP and we had bought fairly well last year, so that really helps plus a little bit of right product mix and better prices that really helped us overcome that. Going forward, we do see challenges on the gross margins. We have our plans in place, including some bit of price increases and cost reduction program, we may face some headwinds in a shorter period of time, but over a medium to long term we will be able to navigate that as well. So, it is a consistent effort to do that. So good product mix that would have helped in a better raw material because of better management. Plus SMP was covered which is one of our largest input materials.

Dr. Sharvil Patel: I think the only point to be making a sense is that Nutralite which is a butter substitute will be the only one which will face challenges, because of the farmers for which we have to obviously look at pricing, but beyond that, by and large on the overall category side, we should be able to manage what we have done so far in this.

Tejas Shah: Vision of us touching 21% or 22% kind of margin that we guided two years back, so, where should we expect us to be in FY'22… at least what we should strive for in our numbers?

Tarun Arora: My view is I have committed '22-23 as the year we should do it. We are striving to do it earlier and we'll see how we are going to get it. We are in a striking distance, it's not too far, but it also is a function of two parts with our sales given COVID and other disruptions pull it down and your operating leverage does get affected. So if such COVID related disruptions do not come it will become relatively easier. We will still strive to do it by '23 or maybe earlier.

Moderator: Thank you. The next question is from the line of Devang Shah from R Square Finance. Please go ahead.

Devang Shah: Sir, my first query was relating to acquiring Heinz, what would be the proportionate in the total revenues now in the current financial year? Second query if we consider the recent launch of the Mouth Spray Viroshield so is it being considered under the Zydus Wellness company sales figures or that comes under the parent company, the Cadila Healthcare?

Dr. Sharvil Patel: Let me answer those two questions. First of all, Heinz portfolio and Zydus Wellness is completely integrated, so there is no way of now bifurcating the profitability between the two businesses, so that would not be possible now because everything is completely integrated in terms of sales and distribution and manufacturing. The second part is Viroshield is in Cadila Healthcare.

Devang Shah: Okay, but on the box it has been printed as manufactured, marketed and distributed by Zydus Wellness?

Tarun Arora: The pack is printed as marketed and manufactured by Zydus Healthcare Limited which is the pharma business and manufactured at Zydus Wellness facility. So it is only a back end, little bit of work that we support, but it is a Cadila pharma business.

Devang Shah: On the website of Zydus Wellness, there should be a minor change like if you go to the "Contact Us," the contact numbers are not correct, they have been already closed it out, that should get updated very easily.

Tarun Arora: We will get it corrected in next 24-hours.

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

Shalini Gupta: I have two questions; one is that this is a quarter of very high growth for Glucon-D and Nycil and overall, you have grown very well also. So, would I be correct in thinking that these two brands would have grown more than 25% for the quarter?

Tarun Arora: Actually, Glucon-D has had a slightly lower growth because it started a bit late because of the season starting out a bit late. All our brands have grown in high double-digits for the quarter.

Shalini Gupta: In spite of palm oil prices been about 40% higher, and even milk prices been higher, gross margins have been maintained, you have not yet taken a price increase. So, my question is that palm oil of course you cannot avoid but the forward cover that you have taken, would they have covered for the palm oil increase?

Tarun Arora: From an input price is concerned, palm oil, and Nutralite price increases have been effected and we manage it on real-time basis and therefore we do pass on as much as we can and therefore those things do get affected, but that's only one part of our portfolio and that will be addressed as we go along. As far as the milk prices was concerned, last year after April the milk prices happening fairly benign and started going up only on November, December. So, we have covered milk reasonably well and therefore the impact of that milk purchased earlier has been in our favor in the quarter gone by and therefore you see the positive impact.

Dr. Sharvil Patel: And also, we have had a far better product mix.

Shalini Gupta: Sir, going forward, should one assume that your gross margins will be at least maintained?

Tarun Arora: At annual level we hope to grow slightly, and we believe that will be a part of the two drivers of our EBITDA improvement will be partially gross margins and operating leverage as we go along, so we are working on both more in annual level, quarter there are shifts that happen.

Shalini Gupta: If you could just speak about what milk prices are like and what your average milk cost is?

Tarun Arora: Milk prices have gone up by 15-20% in between, it went up in November, December till March it was high, it has come down back to earlier level of October, November as we speak, down about 10-12% from the peak of January.

Shalini Gupta: Sir, is it fair to say that milk prices are around Rs.30, 35 per litre, I just wanted a percentage increase?

Dr. Sharvil Patel: It has gone up beyond more than Rs.35, Rs.35 is not the current price.

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

Shirish Pardeshi: I have a few questions. To start with, Tarun, would you be able to share what is the volume growth for Sugar Free and Complan for the Q4 and full year?

Tarun Arora: We had a good double-digit growth for the quarter as well as the full year, it would be one of the highest increases we have seen in recent years and mostly it is all volume-led only.

Shirish Pardeshi: Because if the growth is double-digit, so I wanted to bifurcate what would be the volume growth and if there is any price element in the full year?

Tarun Arora: Small element I think 1%, 1.5% kind of thing which we have corrected some of the SKUs as we move along, but nothing major.

Shirish Pardeshi: For both Sugar Free and Complan?

Tarun Arora: For Sugar Free. Complan, we have not touched the pricing yet since we got into the business in the January 2019.

Shirish Pardeshi: So, this is largely a volume growth which you are saying?

Tarun Arora: Correct.

Shirish Pardeshi: My second question is again on the inflation which you have been highlighting. At this point of time, for the company, what is the weighted inflation you are seeing?

Tarun Arora: There are different parts which play out. I do see 1-2% at a cost level which we are seeing from packaging material which is about 0.7% to 1% at a cost level, different raw materials are actually balancing out like Dr. Sharvil also pointed out that palm oil is extremely high but milk and other SKUs are balancing out. So at a cost level, it will be less than 1% if I add up all raw material and packing material, packing material standalone is a bit of concern as I speak, other things we are able to balance out.

Shirish Pardeshi: In Nutralite, we have fairly big business coming from the Horeca channel which right now is very-very challenging. So, is that cost pressure because of palm oil has to be divested, what is the impact which we will have to see in the gross margin or maybe if the pricing increases is not happening in first half?

Tarun Arora: So, we are taking price increases and passing it on. So, I do not think we should worry too much if at all. From the positive side is that because the business is under pressure from a top line also, it will only improve our product mix from a GC perspective. But having said that, I think we will be able to handle between cost management and passing on to consumers some bit of it. But beyond a point, I think it is beyond anyone's control.

Dr. Sharvil Patel: The strategy that Tarun and his team are taking on Nutralite which is the whole launch of butter, ghee and the whole retail side of creating a better footprint on the retail side, I think will overall create a far better gross margin profile over a period of time and the Horeca will remain essential and critical in terms of institutional sale but we would see a better brand visibility with the kind of extension that have been created on Nutralite.

Shirish Pardeshi: Right now, our distribution which we have achieved and fairly it is a good mix which we have and I am sure we are skewed towards non-chemist channel. So, I think with that spirit and we have taken very good intervention in terms of new product. So, would you be able to help me to say what is the new product contribution in FY'22 and is there any target for FY'22?

Tarun Arora: Yes, my vision is to cross a 5% level as a share of sales coming from product launched in 36-months. We do measure it and from a calendar year perspective, we would be close to about 3.5% given that we have increased our launches last year and I think we are headed towards closing a 4-5% sooner than later. So, a couple of years back after the integration we were at 1% or lower, we moved up to 3%, 3.5% but I think there is a lot more work to do as a share of sales.

Shirish Pardeshi: On the international front, you mentioned that you have gone into the African continent. Is there any thought going so far and not exploiting the neighboring markets like Nepal, Bangladesh, Bhutan which is having a similar kind of consumer profile?

Tarun Arora: So, we have sub-parts within these markets, so there is Middle East Africa, there is India sub-continent, Bangladesh and Sri Lanka and there is the South East Asia. These are the three subgeographies that we look at. At least, Bangladesh, I see a big opportunity and we are working to solve for some of them, but it will take some time, we look at organic, inorganic opportunities whenever they come up, but we do see opportunities, so it is something where we have a dedicated team working on these markets. On the other side, Middle East and Africa, I think the markets like Nigeria or UAE, etc., they are reasonably large markets. So, these markets are being built up. About 3% of our business at integrated level now is coming from these markets internationally. My own aspiration is to take it to 8-10% over next few years. So, it will mean that we continue to raise ahead of our domestic business in terms of growth and we wanted to do it profitably. So, it needs to be balanced.

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

Kaustubh Pawaskar: Just one question on the rural distribution. In the presentation you have mentioned that you are focusing on improving your penetration in the rural market. So currently how many villages you are covering and what was a year back?

Tarun Arora: At this stage we do not share the villages numbers, but we can come back maybe in the next investor call or on a smaller group meeting. But just suffice to say that we have a dedicated team which has been built up specifically for UP, Bihar, MP and West Bengal markets where we are focused on going deeper and servicing some of these markets. Our number of towns where we cover directly, small pop strata has gone up by more than 800 towns which also have those villages being serviced through those and they become typically nodal points.

Kaustubh Pawaskar: On the Complan sachet front, the main idea behind launching the sachet was to enter into the northern and the western market. In the call you said that you are getting good traction to the large pack. So, the small sachet which are largely the recruited pack, how is the traction in the markets where you actually want to improve your penetration?

Tarun Arora: I will share how this works. Northern market has a sachet which is different which is 75 grams sachet priced at Rs.30, South and East has a sachet of 18 grams at Rs.5. These two markets are different because of the profile of the competition which is built up in these markets. And we are largely playing a participation game in the sachet market. Our belief is that a large portion of the growth for the brand and even for the category will come from a larger pack where consumers consume the pack again and again and get the right nutrition. But having said this, since we have participated in the sachets after a lot of thinking through and working on the plan, we are seeing very good traction, most of the milestones for the sachet are being met and we are on track to meet all our internal budget numbers on this too and it is also helping us drive deeper penetration which was a very important ask, now the markets like Tamil Nadu which was being grown largely by these sachets, so therefore we are on track on that.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: I have a question on goodwill. Now the finance bill 2021 has changed this provision which says amortization of goodwill to be claimed as a tax-deductible expenditure if I am correct? Our stance earlier was to amortize goodwill in the tax books and claim this as a tax-deductible expenditure. Now does this provision in the finance bill change are positioned over claiming goodwill as an expense?

Umesh Parikh: As now it has become act, we have to stop claiming the depreciation on the goodwill under IT Act and goodwill in the standalone book though it is amortized in the books of account, but it cannot be claimed under the IT Act, but on a consol level you will not find much of the impact at a tax position level because of certain reasons; one is that we have accumulated losses in the tax book, secondly, there are 80(I) benefits available to us and thirdly, there is a MAT credit available to us. So, till FY 2023-24 you will not find much of the impact of this amendment on us depending on Company's sales and profitability growth.

Binoy Jariwala: But sir, these benefits would anyways be available to us over and above the goodwill that was being available, right?

Umesh Parikh: Yes, these benefits were available over and above but what we have factored conservatively that up to 2023-24 after that we have also not factored in these benefits.

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

Tejas Shah: A couple of follows-ups. So perhaps after a break of almost four, five years, we are seeing this kind of increase across right from packaging material to underlying commodities also. I think the branding power, or the pricing power will be put to test in coming 12-months and there will be binary choice in front of them which will be market share growth versus margins. So, most of our acquired categories are slightly unique and at an analyst call we do not have color of the construct of the competition there. So, is it very margin-protective and not grow that any price kind of competitive scenario or is it much more grow revenue price kind of scenario? So basically, how should we see or at least I am not asking the forecast, but based on your assessment in past, what is the nature of the competition in this two, three key categories for us?

Tarun Arora: I think it's an interesting question. Except for Complan, where we are not the leader and the brand has been under pressure for years, each of the categories that we have, we have enough pricing power to navigate a cost increase and therefore we as a company have demonstrated over the years that we want to grow, we have a huge hunger for growth but we don't want to do it at the cost of profitability. So, we will balance the two; we will focus on growth, short-term things can happen but we will not take any fundamental excess on profitability. So if our price has to be passed on, we will first look at cost management, if we cannot, then we will pass it on. So, first effort will be to do through cost management, if it cannot be done we will pass it on. And most of our categories are showing a reasonable pricing power for our brands because of our leadership and the way we build. Only pressure has been on Complan over the last two years because the way the brand is, but we are seeing a good momentum back on Complan and we will take some calibrated calls whenever we need to. So to assure you, I think we are nor at risk on either, or situation, my view is that we will be able to navigate through this with the price increases and cost management and most of our brands will allow us or help us through that with the exception of Complan which also is better off than it was two years back and we will take some calls there also to address it.

Tejas Shah: Second, as a strategy for last three, four years, we have been very much committed to new product launches irrespective of cycle or irrespective of macro scenarios also. So now when we look back, obviously, the strike rate for the industry also has been low. But if we have to call out two, three key successes which you mentioned the 3% turnover is now coming from NPD and you want to move to 5%, so what will be your top three successes of NPD in the last three, four years?

Tarun Arora: What really work for us is a few things. I can add them in terms of value. I think Sugarlite is one clearly while the pace is still very small, but it has been building up consistently and we are sitting on third year since launch where it is building up most of the milestones after the first year which was a slower number, after that it is done reasonably well. I think Nutralite Mayonnaise again had a very slow start; it started building up in last one year, reasonably well. Initially, in the institutional, Mayonnaise built up a little bit, this year we are seeing some improvement from institutional. Chocolate spread has been on a small base being doing okay. The Everyuth TAN removal for two years has had a very good run. In fact, it was one of the most successful launches in almost six to eight years or ten years that we had seen. Unfortunately, as COVID came in its peak summer season, it's little impacted but we believe it will have resilience. So, these are some of the examples what has worked. Of course, there are examples what has not worked for us. And we continue to drive these. To my mind, we have not had a big wave of success on NPD that we expect. Even ImmunoVolt Glucon-D is one of the first few launches in many years on a new format, it has been meeting most of the milestones and a little bit behind but doing reasonably well on Glucon-D. Nycil Sanitizers had a good progress but it has not kept the progress, it has been slower, it has been a crazy market any which ways to predict. So, we will see how we continue to build it. But that's really what it is. And we are hoping one of these will become a big one.

Tejas Shah: Sir, allied question there. So if we see Zydus as MFD strategy, even a long history also, it has always been to create niche rather than to participate in mass categories. Now, we are seeing some of the established names are diluting the whole brand, perhaps need of the hour, I do not know, but brands are actually leveraging the established brands, they are getting into established categories with the proposition that even if they gain 20, 30 crores kind of size on that large category, it will be good enough for them to keep the movement chugging along. So from that perspective, do you think that we have established brands but we have always tried to create niche categories rather than participate in mass categories? So, is there any rationale to rethink on that front or you are good on what you are doing right now?

Tarun Arora: Some of those things are also part of the theme. I think we also need to recognize this last one or two years we were also reestablishing our base; our distribution has gone up which is One of the critical ingredients to play a larger NPD game is to have a strong direct distribution and in last six, eight months or one year, we have established. Earlier, in terms of benchmarks of first launch direct distribution used to be 75,000 or 1 lakh. Now we are able to start with the 1.5 lakh plus kind of distribution. So that's something which is changing and you will see over the next 12 to 18 months some larger mass participation as well if I were to say.

Dr. Sharvil Patel: Your points are good. It is a question of what value proposition we bring in. So if you look at Nutralite, we will definitely be entering the more mass segments, but we definitely have a better value proposition and have very good control on the whole value chain of manufacturing and sourcing. So, I think the brand will be a little different. If you look at niche, Sugar free is one area where we are trying to see more niches like Sugarlite, Sugar Free Cream. So that will continue. Everyuth will remain in a similar way in terms of launching new types of use cases for product. But in some there would be more Masiness to it, in Complan, we are diversifying, as I told earlier also that, we are looking eight groups, we want to bring proper solution for different age groups which we have done in the first wave now and we will look to enhance that. So, I think that is how the whole strategy the brand will follow.

Tejas Shah: So instead of these categories, perhaps niche value proposition in established categories, that is how one should see it, right?

Tarun Arora: Yes, that would be a good capture.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing remarks. Over to you, team.

Tarun Arora: Thank you very much. As we are going through a difficult phase, best of luck everyone and please stay safe. We will see you next quarter.

Dr. Sharvil Patel: Thank you very much.

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