November 10, 2023

Listing Department
BSE LIMITED
P. J. Towers, Dalal Street,
Mumbai–400 001

Code: ***531 335***

Listing Department
NATIONAL STOCK EXCHANGE OF INDIA LIMITED
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex,
Bandra (E),
Mumbai–400 051

Code: ***ZYDUSWELL***

Re: **Transcript of the Earnings Conference call held on November 6, 2023**

Dear Sir / Madam,

Pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached Transcript of the Company's Q2 FY2024 Earnings Conference call held at 4:00 p.m. (IST) on Monday, November 6, 2023.

Please find the same in order.

Thanking you,

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

NANDISH PRADIP JOSHI
Digitally signed by NANDISH PRADIP JOSHI
Date: 2023.11.10 10:05:45 +05'30'

NANDISH P. JOSHI
COMPANY SECRETARY

Encl.: As above

"Zydus Wellness Limited Q2 FY24 Earnings Conference Call"

November 06, 2023

MANAGEMENT:	**DR. SHARVIL PATEL – CHAIRMAN, ZYDUS WELLNESS LIMITED** **MR. TARUN ARORA - CEO, ZYDUS WELLNESS LIMITED** **MR. GANESH NAYAK - DIRECTOR, ZYDUS WELLNESS LIMITED** **MR. UMESH PARIKH – CFO, ZYDUS WELLNESS LIMITED**
MODERATORS:	**MR. MANOJ MENON – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Zydus Wellness Q2 FY24 Conference Call hosted by ICICI Securities.

As a reminder, all participant 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. Manoj Menon from ICICI Securities. Thank you and over to you, sir.

Manoj Menon: Hi, everyone. It is a wonderful good morning, good afternoon, good evening depending on the part of the world you are joining this Conference Call from.

As always, it is our absolute pleasure to host the Management of Zydus Wellness Limited to discuss the recent Quarterly Results.

The Company is represented today by Dr Sharvil Patel – Chairman, Mr. Tarun Arora – CEO, Mr. Ganesh Nayak – Director, and Mr. Umesh Parikh – CFO.

Without much ado, over to the Management for the opening remarks post which we will open the floor for Q&A. Over to you, sir.

Tarun Arora: Thank you, Manoj. Good afternoon and welcome to the post results teleconference of Zydus Wellness Limited for Quarter 2 Financial Year 2023-24.

Like Manoj mentioned, we have with us Dr. Sharvil Patel – Chairman, Mr. Ganesh Nayak – Director, and Mr. Umesh Parikh – CFO with us.

The FMCG segment witnessed a mixed quarter in terms of demand recovery, while urban segment continued to grow, the rural segment lacked recovery in demand due to rising food prices and uneven weather patterns across the county. The Personal care segment registered a high double-digit growth aided by growth in Nycil brand due to hot and humid weather in many parts of the country. The growth was further accentuated by strong traction of Everyuth brand. The Company's Nutralite brand also saw a strong surge in volume demand, however, value led growth was suppressed due to reduction in market driven prices.

In line with category, Complan brand has seen revival while continuing to increase penetration. In the Sweetener segment, growth remained muted due to absence of sales of Sugar Lite on account of continuing trademark litigation of the brand and sectoral headwinds. As a result, the Company's food and nutrition segment witnessed a flat quarter in terms of growth. The Company registered consolidated net sales growth of 2.6% on a year-on-year basis. The Company continues to recover the gross margin during the quarter aided my moderating rates of key inputs and calibrated price increases taken earlier. As a result, the Company has registered an improvement in consolidated gross margins on net sales by 198 basis points on a year-on-year basis.

Let me take you through the highlights of the consolidated financial performance of the Quarter 2 Financial Year 2023-24. During the second quarter of the Financial Year 2023-24, our net sales grew by 2.6% to Rs. 4,379 million. EBITDA grew by 3.7% year-on-year to Rs. 168 million. Reported profit before tax grew by 4.9% to Rs. 86 million. Reported net profit was down by 30.6% year-on-year at Rs. 59 million mainly on account of deferred tax liability which is a non-cash item.

With that, let me share some of the highlights of the operations for the quarter which will also cover the category growth in market share numbers as per MAT September 23 report of Nielsen and IQVIA. We continued our thrust on marketing initiatives to grow the categories and increased market share of our brands during the quarter. To narrate a few, on the Glucon-D front, we continue to drive consumption of our new variants of sachet in mango flavor during the quarter through active digital engagement with consumers. The Glucose powder category has grown by 1.2% at MAT level. Glucon-D brand continues to maintain its number one position with a market share of 60.0%.

On the Complan front, the Company has registered ahead of the category volume offtake growth with continuous efforts and necessary interventions we have witnessed growth in penetration by double digits. The health food drinks category has registered a growth of 4.3% at MAT level. Complan's market share stood at 4.4%.

On Sweetener's front, the Sugar Free brand continues to show good offtake growth during the second quarter as well. We continue to air our new communication campaign with celebrity, Katrina Kaif for driving Sugar Free Green. We also participated in several key PR initiatives like Dr. Mohan's International Diabetes Update 2023 and seeding Vernacular KOL-led videos on digital platforms to strongly counter any negative perceptions around non-nutritive sweeteners. The brand continues to maintain its market leadership with the market share of 96.1%.

On the Personal Care front, Everyuth brand posted yet another quarter of strong growth. The face scrub category has registered a growth of 6.2% at MAT level. Everyuth scrub continues to maintain its leadership position with market share of 43.4% which is an increase of 162 basis points over the same period last year. The peel off category has registered a degrowth of 0.5% at MAT level. Everyuth peel off has maintained its number one position with the market share of 78.9% which is an increase of 75 basis points over the same period last year.

The Prickly heat powder has degrown by 2.1% at MAT level. However, Nycil has registered double digit growth and maintained its number one position with a market share of 35.2% which is an increase of 19 basis points over the same period last year.

On the Dairy and Spreads category front, Nutralite brand has registered double digit volume growth for the quarter aided by fiscal sales. The Company hopes for a further recovery in demand due to upcoming festive seasons and we are working towards maintaining its gross margin recovery. Thank you and we will now start the Q&A. Over to the coordinator for Q&A.

Moderator: Thank you, sir. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead, sir.

Abneesh Roy: Just one question I had, so on Complan and your Dairy business, in terms of price hike last 1-2 years the entire industry and you must have taken price hike, there is a correction in the milk prices, so do you see your margins bottoming out once the inventory level, etc., corrects? And second related question on Complan is the market leaders are volume dip in Q2, so specific to Q2 how is your volume performance in Complan?

Management: So, with the milk prices stabilizing I think we do hope that across the dairy led value chain, we should see margins only improving. In terms of our volume like I mentioned Complan has seen a volume improvement in Quarter 2 specifically.

Abneesh Roy: But are you calling that out as a good structural improvement given your base etc., I understand was a bit soft and market leader is also taking lot of activation, promotion, sampling etc., so how do you judge this from a 2-year perspective, Y-o-Y I understand?

Management: For me, the structural shift is because we are seeing a penetration going up and that is a good sign because we are recruiting new consumers and I look at over last 4 years, every year we have been widening our consumer base and that I think is a good sign which is really aiding the volume growth. Yes, you are right, there was a dip, but about couple of years back if I look at it, there was also a substantial volume increase during the COVID times, so over 3-4 years period, I think this is a very positive thing. We just have to focus on sustaining and building around it.

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

Tejas Shah: My first question is on, if you can disintegrate growth for the quarter in terms of volume, value and all, so if you can give qualitative indication of which brands actually did better than the Company average and which did relatively poorly?

Management: I think we have started giving a little bit of separate numbers to help you understand, so first of all, I think at a volume level we have had a flat volume growth because some of the brands have had higher and some others, just to look at it, I think Food and Nutrition like we explained is flat for the quarter and Personal care both the brands have aided the double digit growth. Within the Food and Nutrition, while we have seen Nutralite because it is more reflective of the underlying oil and other ingredients impact, we have seen a high double-digit volume momentum at a price level because we have to give corrections like any oil based brands, therefore it pulls down the price realizations. So, those are the major drivers of these volumes.

Tejas Shah: Second question pertains to Sugar Lite, you called out the litigation disrupting the business for a while, so just wanted to understand what percent of total turnover comes from that which would have got impacted this quarter and any visibility, I understand it is under litigation, so any ballpark visibility that you can give in terms of and by when do you expect to see the back of this crisis?

Management: It is about 3-5% of our business in the lower quarters for us. We don't have any visibility. We are just hoping for a quicker resolve and we are engaging with Supreme Court to clear the injunction that we have.

Tejas Shah: And sir, you spoke about after many quarters we are seeing some tailwinds on gross margin side, so coming second half and then beyond that in near term, how are you reading this tailwinds timing out in terms of gross margin visibility and where do you see this year we handling upon this number?

Management: I think we are clearly seeing the non-dairy portfolio leading the improvements in gross margins which you talked about, now dairy is also stabilizing with the minor drop I think we are hoping even that stabilizes we are looking good to continue this improvement in margins. I cannot give you a specific answer, but only should remain same or get better than this mainly on improvement versus last year.

Tejas Shah: And sir, last quarter, we had some concerns pertaining to this WHO guidelines on aspartame, now this quarter, you at least in the presentation it seems that we are not as much worried as we were last quarter and even I see aspartame prices that you have shared as the raw material that has also not shown any weakness and then perhaps I am over reading it, but just wanted your insights on the same?

Management: So, we look at two or three levels we are reading from the market through the social listening about the talk on aspartame and concerns, our own tracks, I think that huge amount of impact that was there in terms of conversations that has actually died down, it is reduced. Even our track is picking up less. From an offtake perspective given by IQVIA, it is showing a positive movement and that is really what we are hoping will build. In market it still has to translate into back to normal thing, it hasn't. So, we are just hoping that it will slowly translate into positive regular numbers.

Moderator: Thank you. The next question is from the line of Mr. Umang Shah from Banyan Tree Advisors. Please go ahead.

Umang Shah: I just wanted to confirm what was the contribution of Sugar Lite brand for the last 6 months?

Management: So, it is about closer to 4% in the weaker quarter, the annualized will be half of that.

Umang Shah: And sir, this litigation is going on since 2020, right, the first filings, so do we see this will result in this coming year or will it be pushed to next year, any idea?

Management: We are hopeful of it getting sorted, but the litigation is not in our control.

Moderator: Thank you. The next question is from the line of Mr. Devang, an Individual Investor. Please go ahead, sir.

Devang: My question is on EBITDA margin, why are the better margin are so low compared to the peer group and as an industry as a whole for the quarter?

Management: I think if you look at it, we have a seasonality and therefore the EBITDA margins need to be looked at in total because we have a high seasonality and therefore quarter 4 and quarter 1 have tend to be significantly higher and Quarter 2 and 3 tend to be much lower because seasonality is impacted, so better to look at either a trailing 12 months or an annual full picture.

Devang: But even in the previous quarter, it was only 14%-15%, can you guide what is our aspirational level for the EBITDA margins?

Management: So, we had said that while we were at 17%-18% due to huge inflation over the last 2-3 years, we have seen those dropping to closer to about annualized level of 15%. We expect over next couple of years, we will claw back to a 17%-18% level and then plan further steps to improve it.

Devang: And, sir, the next question is revenue growth is significantly below inflation levels and what would be the key triggers for the next few years and pathway to increase ROE over the next few years?

Management: So, there is a mixed impact. I think some of the brands have actually done significantly well. There is also the demand impact which, like in my starting point, I mentioned that there is certain demand which is impacted in the overall FMCG space also. We hope and expect that we should be back at double digit growth in the coming quarters. The demand should get better by at least quarter 4 and that festive season also most of us are hoping should lead to a better demand and by quarter 4 should be back to better demand and better growth numbers.

Devang: Sir, any light for long term picture like 2 years, 3 years, not quarter wise Q4?

Management: So, from a medium-term perspective we are committed, and we do believe we have a strong portfolio which can deliver continued double-digit growth on the back of growing our categories, expanding the consumer base and also competitively we are well placed to win in that marketplace. So, we do believe good double-digit growth is what we should be looking at over 3-4 years.

Devang: And sir, any light on ROE?

Management: So, ROE, as you know that because of the acquisition, ROE tends to be generally lower because of the inclusion of goodwill, but as we go forward, we have earlier given a guidance that we will be touching ROE of 10% in 3 years' time.

Devang: And my last question is, as we are more of a Wellness Company than an FMCG Company, is there any plan to expand into Ayurvedic space and build any brand around that or acquire any Company in that space?

Management: So, business development is a constant part of our effort whether it is internal innovations as well as acquisitions, we have reasonable capability around some of these things, but no specific plans to share at this moment. When we have something specific, we will be able to share it.

Moderator: Thank you. The next question is from the line of Mr. Madhur Rathi from Counter Cyclical Investments Private Limited. Please go ahead, sir.

Madhur Rathi: Sir, my question was regarding the similar to what previous participant has asked, sir our revenues have not grown above the inflation rate, so if you could just explain the growth part, then we will do a double digit and how we will achieve revenue growth as well as margins, it could be very helpful?

Management: So, if you look at it, last financial year, we did grow at 12%. This year, I think especially the first 4-5 months have been substantially impacted by one larger component has been our largest brand, which has a seasonality and due to weather impact has had challenge, mainly Glucon-D and that actually has pulled down the overall growth if I were to say. We do expect that things should be back to normal starting quarter 4 and even now as festive season starts, things should only start getting better from a growth point of view. Over next 2-3 years as an earlier caller had asked, I think we do expect back to a normal double-digit growth for us.

Madhur Rathi: So, regarding the buyback that we had discussed over the last quarter, sir is there any momentum on that?

Management: There is no discussion on buyback.

Madhur Rathi: No, we were asked for the buyback for a while that is why I am asking has there any momentum on that.

Management: No.

Madhur Rathi: I just wanted to understand, sir with Complan in our portfolio right now, will there be a decline in seasonality going forward or will this seasonality be continued for the next 2-3 years?

Management: Seasonality is part of our portfolio mix where two of our brands, Glucon-D and Nycil actually have a substantial share in the summer seasonality and that is part of the mix with Complan, Glucon-D, Nycil, all the brands being there in the portfolio. So, I don't think structurally I see any change while we have committed to build on non-seasonal brands, but I think the overall structural shift, I don't see in over next 2 years.

Moderator: Thank you. The next question is from the line of Mr. Karan Bhuwania from ICICI Securities. Please go ahead, sir.

Karan Bhuwania: Firstly, I wanted to get your views on your international business performance, how the performance in this quarter?

Management: So, if I look at first half of the year, we had double-digit growth on international business, but it is slightly lower than our expectation because one of our major markets, Nigeria particularly had a severe currency devaluation due to which some of our business had got stuck. I think with things getting now streamlined, it should only come back. All the other markets continue to grow in good double digits. So, overall, I think for first half we are in double-digit zone. We can do much better as these are external factors which we will have to deal with as we keep building this business organically.

Karan Bhuwania: Secondly, if I look at your ad spends, the ad spends have been flat in absolute terms year-on-year, right and if you look at most of the other FMCG companies, they have been increasing their ad spends significantly, so somewhere between 30% to 35%, most of the FMCG companies, so will this under investment in ad spends could impact our growth in the future or how do you look at it?

Management: So, we are equally concerned about any advertising cut. So, I think over a 2–3-year period, if you look at it, I think we won't have been much lower in terms of spends direction. More importantly, I think we have also taken significant actions in terms of optimizing our investments in terms of our cost efficiencies around some of these things. Going forward, I think as the gross margins expand, we will continue to invest back on advertising as the biggest priority for us.

Moderator: Thank you. The next question is from the line of Mr. Shirish Pardeshi from Centrum Broking Limited. Please go ahead, sir.

Shirish Pardeshi: Looking at the slide on raw material, slide 6 and 7, I think barring apart milk, RPO has come down, aspartame and stevia prices were also looking sequentially down, so just wanted to check if milk from here slides another 10%-15%, is it safer to assume that second half of our gross margin will be significantly higher, say from 44.9 what we have reported in this quarter?

Management: So, we do believe we have seen 200 basis points improvement or 198 basis points improvement over last year and Quarter 2. That is the kind of trend over last year we will see in HY2, more led by of course non-milk prices, but milk also being stabilized and slightly, I think we should be able to. That is our view as well. It should only get better.

Shirish Pardeshi: Sir, just wanted to check, just to continue, do you think second-half our ad bill will be higher because right now the consumption and the discretionary is taking toll, but if there is a significant improvement, do you think the ad spend will inch up in next quarter and the EBITDA will reach towards 14%-15% range?

Management: I think our ad spends will be in line with what we have been doing last year. I don't think there is a disproportionate increase, but we will be looking at significant opportunities specifically in quarter 4 as the business gets larger and with the better margins, we should be able to invest back more aggressively.

Shirish Pardeshi: My last question on the Everyuth, I think over last 5-6 quarters, we have done a lot of work in terms of penetration distribution, I think what is helping the growth if you can, peel off we are undisputed leader, so there is no question but the other two segments we have done revamp of packaging and other thing, our distribution focus is also there, but what is it when we see the double-digit growth in that segment?

Management: So, we are seeing double-digit growth. There is no reason. Actually, sometimes Nielsen, because of being smaller segments doesn't do justice to what the brand is doing and that is why we have given a Personal care which captures both Nycil and Everyuth and Everyuth is a significant portion of Quarter 2 numbers. So, you can take from us that not just one quarter, but over several quarters we are seeing consistent good double-digit growth.

Shirish Pardeshi: One follow up, do you think we need to expand the other segments of Personal care over every brand?

Management: Absolutely with you on that. So, I think scrub and peel off have demonstrated what we can do with this brand and how the strength of this brand is. We are clearly evaluating 2 things to build on, one is body lotions, which will help us deseasonalize, while face wash has also grown well for us but more so in specific channels. We will be looking at more innovations, more work to expand the portfolio and see how Everyuth can be a much larger brand given what we have seen in terms of traction and lead segments.

Shirish Pardeshi: The reason why I am asking because on e-commerce, our salience has already reached 10%, so is Everyuth is under index in the alternate channels for example modern trade**?**

Management: Not really, so overall, our business is about 20% between modern trade and e-commerce, 20%-22%, and Everyuth specifically leads this in these channels. So, it is not under leveraged. Actually, it has been always ahead of the rest of the businesses. Actually, the lower side is branch like Glucon-D, Nycil which have a larger rural presence and a wider, deeper presence because of more SEZ, BMC, but Everyuth does very well on e-commerce. So, we are doing well across channels. So, we have the sachets which reach out to lower pop strata and the larger packs which go for e-commerce and modern trade.

Moderator: Thank you. The next question is from the line of Mr. Manoj Menon from ICICI Securities. Please go ahead, sir.

Manoj Menon: Just only one question, on the sales vector of growth, whether it in terms of numeric distribution or whether in terms of line selling, if you will just talk a bit about let us say how that has panned out in the last 2-3 years and how do you see the medium term?

Management: So, if I look at it over the last 2-3 years, we have done specific actions across our channels to expand GT in terms of direct distribution, which used to be about 3-3.5 lakhs about 3 years back, we have taken it to 6 lakh plus. On e-commerce, clearly before COVID, which was 1%, which we started doing about 8%-9%. Modern trade, which went through its own challenge, we have really expanded our portfolio. Food service because we tried, we have taken a focus action. So, across the portfolio we realized that if we have to grow our brands and we being leaders, sales would be a critical element of driving this activity. The outcomes of each of these is where we have seen e-commerce playing a very good role in terms of both expanding our portfolio as well as our market share within this, so it doesn't get reported in Nielsen and therefore some of those actions get missed. Also, we have come out with specific packs in modern trade and e-commerce to drive this agenda, which I think is a requirement of this organized trade and which we are working on. From our food service also, we have seen our portfolio Nutralite really helping us expand. I think GT has been, I would say something which we think we have invested consistently, we have expanded our distribution, but the outcomes are less than satisfying, which is not just true for us, but I hear other FMCGs also talking of a similar thing where the share of general trade has fallen. So, we continue to drive our efforts because we feel access will continue to play a very critical role in category expansion and therefore we stay focused on it. We are taking multiple actions now where we are saying one is of course to continue increase our distribution but also increase our efficiency pack productivity also, more SKUs per outlets that we cover, so that we are able to get better value out of general trade, but that is a little bit more external factors which are driving it. So, overall, I think satisfied with the effort, we can continue doing it and used to be 1.8 million availabilities as reported by Nielsen at a combined business level when we acquired. Today, it is more than 2.5. My wish list is we could cross 3 million outlets stocking Zydus Wellness products and that is really where we would want it to be in next couple of years, maybe.

Moderator: Thank you. The next question is from the line of Mr. Devang Saraogi, an Individual Investor. Please go ahead, sir.

Devang Saraogi: As the promoter is on the call, I want to ask him whether they are interested in buying more shares from the open market, if they can comment on this?

Management: So, currently, I don't think we have any additional comment because the promoter family group decision is not made in this room. It is made separately where we are not involved as part of the decision.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Management: Thank you, everyone. Season Greetings and Happy Diwali. We will see you after the next quarter.

Moderator: Thank you, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.