"Zydus Wellness Limited Q2 FY-21 Earnings Conference Call"

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MANAGEMENT: **DR. SHARVIL PATEL – CHAIRMAN**
MR. GANESH NAYAK – DIRECTOR
MR. TARUN ARORA - CEO
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Moderator: Ladies and gentlemen, good day and welcome to the Zydus Wellness Limited Quarter Two FY2021 Post Results Q&A Session with Analysts and Investors Conference Call. If a participant is connected on webcast and the audio bridge, you are requested to mute the audio from the webcast to avoid any echo or any disturbance. To ask a question, participants are requested to click on the link for instructions to dial into the audio call to ask the 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 quarter two financial year 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 Limited.

As the country is fighting the pandemic and our economy is gradually opening up to the necessary safety measures. The quarter gone by witnessed a revival in growth rate of our business as well. As a result of which we recorded a growth of 9.3% at gross sales level for the quarter and 4.9% at total revenue from operations. The reason for lower growth at total revenue from operations level during the quarter is due to lower operating income in the form of GST budgetary support as the same as discontinued for our Sitarganj plant from January 2020 onwards, and aggressive cut in trade spends last year.

Health and Wellness portfolio of our major brands have become even more relevant during the COVID times. Following are some of the highlights of the growth trajectory of our brands during the quarter gone by. Sugar Free along with SugarLite saw a very good traction aided by increase in home consumption, Glucon-D and Nycil continued to do well during the offseason. Everyuth and Nutralite saw a revival month-after-month. While Everyuth has already touched the pre-COVID level Nutralite is expected to touch the same in a short period of time. Dairy lead product like Sampriti Ghee, registered a remarkable growth over the last year. From the general perspective, growth was mainly driven by general trade and e-commerce. While modern trade reported de-growth for the portfolio.

E-commerce grew across the portfolio at (+130%), mainly on brand Sugar Free and Complan and all others as well. While general trade grew at around 10%. International Business doubled itself and contributed to 5% of the revenue for the quarter. As a part of a strategic initiative to pay down the debt, the debt the company has bought back it's the own non-convertible debentures of Rs.11,050 million, which will help the company reduce the debt burden and deleverage the balance sheet. In the process of buying back its own non-convertible debentures the company has paid one-time debenture redemption premium of Rs.980 million, which is recorded as exceptional item in our financials for the quarter.

During the quarter, the company has successfully completed preferential issue and QIP issue of equity shares by raising Rs.3499 million and Rs.6500 million respectively from the above issuance, the proceeds of which will be used towards redemption of non-convertible debentures.

The completion of buyback of non-convertible debentures will have a positive impact on the earnings per share of the company over a period of time.

Let me take you through the highlights of consolidated financial performance of quarter two FY2021. During the second quarter of FY 2021 our total income was from operations stood at Rs.3420 million up by 4.9%. EBITDA was down by 10.9% year-on-year to Rs.271 million. The same was up by 11% before the GST budgetary support that seized for Sitarganj plant from January 2020 onwards. PBT before the exceptional items was down by 63.1% year-on-year to negative Rs.74 million. The same was up by 27% before GST budgetary support that ceased for Sitarganj plant from January 2020 onwards. Net profit stood at negative Rs.1053 million.

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

We continued our thrust-on marketing initiatives to grow the categories and increase market share of our brands during the quarter to narrate a few on the Glucon-D front during the quarter Glucon-D Immuno Volts was launched to tap the heightened need of immunity products for kids. The product is loaded with vitamin C, vitamin D and Zinc to boost immunity. The launch was supported with TV and digital media initiatives. The core business continues to get impacted with COVID lock downs and adverse weather conditions. On the Complan front during the quarter gone by us continue to invest behind the brand through consumer offers and communication. To participate in the sachet market targeted towards North and East we also launched a Complan 75 grams sachet at Rs.30 price points.

On the sweeteners brand, during the quarter gone by Sugar Free has continued to grow strongly backed by consistent investment in mainline and digital media to drive relevance for sugar substitutes. To capitalize the growing consumer preference for shopping on e-commerce the brand has significantly increase its investments on this channel and this has helped brand grow at more than 100% versus last year for the same quarter on this channel. SugarLite witnessed very good traction despite COVID-19 and related lockdowns. Growth was supported with specific media and other activations.

On the Nycil front, the brand witnessed a very good traction supported with media campaign during the quarter. On the Everyuth front during the quarter gone by, the brand witnessed a revival month-after-month backed by investment in advertising with a TV campaign for flagship face scrub portfolio to boost optics. Everyuth also introduced a new product Everyuth Aloe Vera and Cucumber gel in the face moisturizers segment with an aggressive on ground push. On the Nutralite front, relaxation in COVID lockdowns has seen the renewed demand month-after-month during the quarter gone by. We’ve also launched new Nutralite Choco Spread on e-commerce and moderate platforms. Nutralite Choco Spread is available in two healthy variants Crunchy Quinoa and Calcium Enriched. The launch was supported with visibility on both the channels.

Going forward, we have rolled out project Vistar which will expand our direct distribution by 1.5 lakh outlets to 5 lakh outlets by the end of financial year 2021. We are poised for a strong growth of our business led by good volume growth. With the upcoming festive season we also see recovery in demand in discretionary spends brands like Everyuth. We also see a surge in demand for Nutralite as more and more food services joints open up. Thank you and we will now start the Q&A session. Over to the coordinator for the Q&A.

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

Abneesh Roy: My first question is on Complan. So this 75-gram Rs.30 SKU how deep will be the penetration and how is the current percentage LUP contribution to Complan some sense you can give?

Tarun Arora: So it's early days, we've just launched this SKU so it's a small contribution to the overall business right now. It'll be less than 5% it's about 2% to 3% maybe it's early days.

Abneesh Roy: And one follow on this. So market leader had some manufacturing issues because of COVID, and they have also taken one of their brands Boost pan India. So did you benefit in Q2 because of some shortage of the market leader and do you see some higher competitive intensity because of the Boost been taken national?

Tarun Arora: So we've seen at an overall level while brand has been flattish. The largely the growth are coming in mid singles from general trade and e-commerce has seen a substantial growth. Modern trade as a channel has been under pressure. Competition intensity continues the way it has been. We are focused on our actions in driving business growth, which is largely right now two channels supporting us in that direction general trade and e-commerce.

Abneesh Roy: And my last question is e-commerce if you could give us some sense on what it means in terms of different portfolio segments as a percentage of sales was last year. And how is it this year and you'll see this sustain?

Tarun Arora: So, e-commerce is something which for the quarter gone by was about 4.5% of our sales and it is at overall portfolio level more than 130%, brand like Complan has seen a substantial gain from that more than the overall business levels closer to 200%. And that's really helping us pull the brand forward and overcome whatever losses we've had in modern trade.

Moderator: Thank you. The next question is from the line of Jainis Chheda from Dimensional Securities. Please go ahead.

Jainis Chheda: Yes, actually, I wanted to understand that how much would be the sale segment wise for each product if possible. And why has there been a negative impact in the margins?

Tarun Arora: So overall, we don't share brand wise numbers. So we've given directional numbers.. From a business perspective our like-to-like growth without the onetime exceptional item and the GST budgetary support of our Sitarganj plant, we have seen positive 11% improvement in EBITDA and about 27% at PBT level. One of the factors influencing the EBITDA margin level is the fact that there was the GST budgetary support, which was there till last year for our Sitarganj plant, which is no more and therefore while we are improving our margins and we'll overcome that, but it takes some time for us to overcome that. So that's one fundamental factor at an operating level where the margin is impacted. The other factors in our profit being onetime expense of 98 crores on account of debenture redemption premium which we paid

Jainis Chheda: Sir, I am not looking at the one time I am looking till EBITDA level. So, till EBITDA level?

Tarun Arora: Umesh you can answer at the EBITDA level because of GST.

Umesh Parikh: Yes, at EBITDA level the GC level and EBITDA level both the effect is of discontinuation of GST budgetary support at Sitarganj which cease to exist on January 2020 onwards, and there are seven crores of impact in the margin because of that.

Tarun Arora: Otherwise, it will be positive 11%.

Moderator: Thank you. We take the next question from the line of Vismaya Agarwal from ICICI Securities. Please go ahead.

Vismaya Agarwal: Just wanted to get a sense of how big SugarLite has become and your outlook on that particular brand?

Tarun Arora: SugarLite should be close to about this year about 5% of Sugar Free in terms of revenues. It's still early days this year, it's largely on track on our milestones. It's still one more year before we can say that, yes, we crossed that, now it started at least first one, six months or one year or a little harder. But this year, it's been on track, it's showing good momentum. If it stays on track, we are hoping to make it a sizable brand over near future.

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

Tejas Shah: First on adjustments, so sir if you can actually give the numbers on the Sitarganj's gross budgetary support and 1Q last year 2Q and 3Q because I believe that will be again impacting our numbers in coming quarter as well.

Umesh Parikh: Yes, so Sitarganj budgetary support was to the tune of 32 crores for the full year. So that will have an impact on the next quarter as well. As this quarter is impacted by 7 crores next quarter so it will be impacting almost all the same

Tejas Shah: Okay. Sir so the same quantum would have impacted us on 1Q as, well right?

Umesh Parikh: Yes.

Tejas Shah: Okay. Sir second, one more adjustment that we are seeing for last two, three quarters is that on employee cost. So for example in 1Q result or full year number of base year FY20 employee cost was 1883 crores which in today's number it is 1560 crores and when our annual report came out, it was 1746 crores and obviously at EBITDA level it gets adjusted whether versus other expenses but this adjustment pertains to what?

Umesh Parikh: You are asking about the one of in the other expenses?

Tejas Shah: No, sir employee cost, employee cost when I see consolidated employee cost when we published our annual report it was 1746 crores and FY20. Which moved to 1883 crores in our 1Q results and now 1516 crores in today numbers.

Umesh Parikh: So, the employee cost the increase is largely on account of the generally the inflation and increment even increases about 6%, 7% this quarter, rest of the increase is on alignment of corporate policies with the Zydus policies and we have mainly in leave encashment and gratuity to align the policy so, because of the actual valuation the cost is higher by about 4.5%.

Tejas Shah: I was referring to these statements in the base year, anyways I'll take this offline.

Moderator: Thank you. We take the next question from the line of Sanjay Manyal from ICICI Direct. Please go ahead.

Sanjay Manyal: I just want to understand if there is any impact of the commodity cost, because ideally, milk prices should have been down within last six months so what would have been impact of that and if there is any other adverse commodity moment?

Sharvil Patel: There has been slightly adverse impact on the milk price because in the Complan though prices have been down we are getting the benefit in the Ghee manufacturing. The issue is with the Complan where we consume the SMP which was manufactured a few months before, but now onwards coming quarter you will see the reflection of the good new prices in the Complan.

Tarun Arora: Yes, you will see a good improvement because of milk pricing on the margins Complan. And the only material, which is the palm oil, which is obviously gone up recently as only a little bit of negative impact otherwise most of the commodities on the positive side.

Sanjay Manyal: Okay. And if you can really specify on the taxation part, the income tax part, till what time will be at the zero tax and what exactly is the nature of this taxation provision?

Umesh Parikh: Sure. We have answered this in earlier forums as well. The zero tax is mainly on account of the goodwill depreciation which we charge in the income tax books of account as well as the accounting books of accounts. This benefit will continue till next four to five years.

Moderator: Thank you. The next question is from the line of Jignesh Makwana from Asian Markets. Please go ahead.

Jignesh Makwana: I just want to know on the gross margin front, what is the compatible gross margin for this particular quarter?

Umesh Parikh: Yes, so comparable gross margin on the natural basis, immediate quarter the same quarter last year it was 55.5, in this quarter it is 53.4% and the effect of 2% is mainly on account of GST budgetary support discontinuation at Sitarganj Plant that we explained.

Jignesh Makwana: Okay, but if I remember sir last concall you said that we are witnessing the benign of vernacular prices and the gross margin should improving, if I adjust the budgetary support also my gross margin is not improving actually. So, any particular reason or any adverse health risk we are witnessing?

Umesh Parikh: So, mainly as I told you, the make prices have been benign, and the benefit will start coming in the next quarter. Within the SMP manufactured earlier and that was impacting the Complan gross margin. Also, the RPO prices have also really shoot up in the recent past, but that will impact the gross margin in the coming quarter. But other than these two, like we don't see any Complan margin will definitely improve in the next quarter.

Jignesh Makwana: Sure, and one more bookkeeping question from my side, what is the net debt position as on date?

Umesh Parikh: So, as on date as we speak, we have retired our earlier debt of 1500 crores of NCD, we have extinguished all the NCDs, apparently, we are having a net debt of about 250 crores.

Jignesh Makwana: And what is the reason behind the other financial liabilities in the current financial liability it has shot up significantly, is it because of the loans which we are going to repay over the next one year because of that particular reason?

Umesh Parikh: So you are looking at current financial liability?

Jignesh Makwana: Other current financial liability that has shot up significant?

Umesh Parikh: No, that is NCD has been, actually NCD has been extinguished, repurchase and there are 395 crores of NCDs which is left, which should also be we have already extinguished in the month of October.

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

Kaustubh Pawaskar: Sir, I just have one question or clarification. Sir, you just mentioned in the call that your general trade grew by 10% and there is a strong growth in e-commerce of around 130% which contributes 5% of your revenues. So, is there substantial decrease in the modern trade sir and what is the contribution of the modern trade?

Tarun Arora: So, modern trade has seen high double-digit de-growth in the last quarter, there is also a small element of CSD also which has also pulled us down so, there are but CSD being relatively less affected modern trade is the bigger factor. Routine monetary dues to do anything between 13%, 14% it has come down because of this by double de-growth, which is largely linked to what is happening in the modern trade, both in one major account plus generally modern trade is down. So, these are the analysis.

Kaustubh Pawaskar: Thanks. And that now you have started seeing recovery in some of the discretionary items like Everyuth, and Nutralite might gear up the momentum mainly because the food outlet started opening. So, should we expect Q3 the growth to be better than what it was in Q2 also Nutralite is one of the larger contributor to the revenue, earlier it was one of the larger contributor to the Q3 revenues and so, should we expect Q3 to be better?

Tarun Arora: So, momentum wise I expect a similar growth pattern to remain. Because even if we look at without at a gross sales level, we've got close to about 10% which is a fair number. So, we were hopeful that we will continue with the similar momentum of targeting a double-digit growth rate, of course there will be reporting impact.

Kaustubh Pawaskar: When you talk about Nutralite you think sequentially Yes, it will do better sequentially on Nutralite going forward?

Tarun Arora: Yes, so sequentially it will be better, but they may still be some distance to cover versus the last year. So, we are hoping to touch last year's numbers by end of this calendar year. So, there may be still some numbers which may be behind that.

Kaustubh Pawaskar: Yes, and one last on the market share point. So, any points in terms of whether you're gain any market share in some of your categories, like Glucon-D, or for that matter Complan because since now you are in promoting your LUP that is Rs.75 pack. So, in terms of market share have you seen any kind of improvement?

Tarun Arora: So, we are not very confident of the new data and that's why we have not shared because it is unreliable, but if I were to quote any direction from that, Glucon-D and Complan are more or less in the same trajectory as they were. Nycil has been reported as a growth in market share by them.

Kaustubh Pawaskar: Okay. And Sugar Free as a category have now cross the pre COVID levels or in terms of growth or any direction on that front?

Tarun Arora: So, Sugar Free for both the quarters gone by has seen a good double-digit growth, it is now operating well above the pre COVID levels. That's one category which is seeing consistent momentum and we are hopeful that we can sustain that as we go.

Moderator: Thank you. The next question is from the line of Praveen Sahay from Edelweiss. Please go ahead.

Praveen Sahay: So, the first question is related to health you had communicated earlier that your summer product you want to mix it on a season neutral and for that in the month of October months of second summer, you will go and do the sales and get some sales and generate some sales in that tenure. So, how is the progress in that scenario sir?

Tarun Arora: So, we have seen improved growth in fact, Nycil has had a good double-digit growth in the quarter gone by and right up to now. So we are seeing Nycil showing a better traction post the season also Glucon-D was fairly affected by the season. So, it's not even through the quarter, but we've seen some improvement in growth in the second season, if September, October are referred to. Plus initiatives that we are taking in terms of having improved our presence on the brand beyond the June, which includes Glucon-D Immunovolt which has contributed to the growth on the brand on Glucon-D. So overall both have shown a positive movement it's a bit of journey that we'll have to do, but we are taking initiatives, our early response from the market is showing a positive direction.

Sharvil Patel: Sir, I can add a few things to it. This is Sharvil here, so one is Nycil with the launch of the new variant Nycil that part of the strategy is working out. With Glucon-D also with launching something to do with the cold season also we hope we can create some traction for that brand which is very summer oriented. Sugar Free is more consistent across in terms of the business and so will be Nutralite with the additions of new business lines that we are adding in that space so, by and large we are on track to make sure that we even out our trends from summer to move outward, it will be a process of at least one to two years.

Praveen Sahay: Also, any color on specific to Nycil and Glucon-D, is there a geographical expansion also started panning out?

Tarun Arora: There is no substantial shift, yes, we are expanding Immunovolt as something which is going to markets which were relatively less important for Glucon-D earlier. So, we are making efforts but there is a, these brands are 50, 60 years of legacy. So it will not happen overnight, but there is clearly an effort. So, I cannot share any substantial.

Umesh Parikh: We will have a situation which will go up, so we will have better geographically direct reach.

Praveen Sahay: Yes. And secondly on the Complan sir also as the company initiated that the pharmacy channel so how is the response their sir and how is that, especially because the guidance is more on the Western part. So, how is the performance in that geography?

Tarun Arora: So, pharmacy channel has responded well, in fact pharmacy channel across our brands, we dialed up much more as the lockdowns happened and it was a channel which was very helpful. So, Complan has responded well in the pharmacy channel, and even the extension of Nutrigro, early days and therefore we'll have to wait it out. But right now the pharmacy channel is responding well, and we continue to believe there is pretty high potential to do better in that channel for Complan.

Praveen Sahay: So specific to the Nutrigro only we are more focused on the pharmacy distribution?

Tarun Arora: That's where we want to grow it first, that's where we believe that will be the best way for the brand to grow because the role of the healthcare professionals, the doctors in particular, has larger play in that segment and that's why we have focused there. So it's just been three, four months of launch. So, early milestones are you're more or less soundtrack we'll have to wait and watch before we can start selling that, we will give you more details.

Praveen Sahay: I have a two-clarification sir, I want to make sir, one as you had said that the income tax, the benefit is of a goodwill amortization and that will be of four to five years. Is there an element of your plant sizes which are situated in North East and how long that will be?

Umesh Parikh: So the benefit of goodwill, amortization overrides the plant benefit that we have in the income tax side, at our Sikkim unit one and two, we have a benefit of Section 80E. But the depreciation will override that, and we'll have an overhead impact because of that, we will not have a tax element at least next four to five years.

Praveen Sahay: Okay. And the second is related to as you had mentioned earlier is related to the net debt and there is an NCD some which you are going to pay in October so the entire NCD will be get over by the second quarter is it like that?

Umesh Parikh: That's already done, we have repurchased all the NCDs and extinguish them all.

Praveen Sahay: So, there is another around the 376 crores.

Umesh Parikh: 395 crores.

Praveen Sahay: 395 crores yes, so that is also done?

Umesh Parikh: Yes, that is done.

Moderator: Thank you. The next question is from the line of Vinay Shukla from PhillipCapital. Please go ahead. As there is no response, we take the next question from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: I wanted a few clarifications as you talked about GST support being withdrawn. So, if you could just please throw some more light on exactly what is this GST budgetary support and that has been withdrawn?

Umesh Parikh: So, government actually in an area-based exemption, which is more applicable to Sitarganj and Sikkim unit government grant support, in form of GST budgetary support. So whatever GST amount, which is payable every month and every quarter, you get certain percentage benefit of that from the government and that is the GST budgetary support. So which was there for up to 10 years, and which just cease to exist in last December 2019. For the Sitarganj plant.

Shalini Gupta: So sir that would have been there for the first quarter as, well right?

Umesh Parikh: Yes, it was there for the first quarter as well

Shalini Gupta: Okay. And sir, last quarter in the conference call you had said that we will see the impact of lower milk prices going forward as in the second quarter onwards, but that does not seem to have happened your raw material is, your gross margins is still lower than what it was even in the first quarter by 200 bps. Is there any change your, in either how you have dealt with the raw material or your sourcing arrangements or something of that sort off?

Umesh Parikh: There has been no change in the kind of arrangement that we have with our suppliers or sourcing the material, sourcing material strategy as well. So, as I told you that market price reflection has already been there in the Ghee. The margin issue is mainly on account of the discontinuation of GST budgetary support at Sitarganj and little bit of product mix. Other than that, there is no problem with the margin as well and going forward in Q3 we see them margin improvement, because the milk prices are benign and there could be a little bit stress on the RPO pricing, but we see a margin improvement in offline in the next quarter.

Tarun Arora: Just to add, weighted average of SMP which we bought earlier and the same is kept for three to six months. So some of those impacts would have come, otherwise we've been buying milk at lower than as we had explained earlier

Shalini Gupta: Sir, if I understand it palm oil prices are up about 14%, 15% Y-o-Y is that correct, year-on-year?

Tarun Arora: It's actually higher than that right now. Right now, MPOB is reporting a fairly high number so there is an increase in price in palm oil.

Shalini Gupta: Okay. So, if you could just give a sense of how much the palm oil prices are up?

Tarun Arora: So, from our last purchase before we were covered, that increase will be about 30%, 35% from what we see, but versus last year, you're right around the same time, November, December the palm oil prices had gone up. So versus that it will be, the impact may be only about 10% but versus on a sequential basis, you're seeing a substantial increase. So palm oil MPOB was operating 2300 ringet about six to eight months back, now it is operating anything between 3000 and 3200 ringet, so on a sequential basis it has gone up. Last year around this time it was if I remember correctly 2900-3000, it is slightly higher than last year also about 8% to 10% and about 30% over six months back.

Shalini Gupta: Okay. And sir if you could give the same figures for milk please?

Tarun Arora: For?

Shalini Gupta: For milk, because my understanding is that milk prices are down almost more than 30% on a like versus say the first quarter, and that is my understanding if you could just please throw like, give a sense of what it actually is?

Sharvil Patel: Yes, so quarter four last year if you look at January to March the prices were extremely high, and we had no visibility of it coming down, there was no estimate available from anyone that it will come down, so we continue to buy milk and generate SMP because we were planning to continue using it. However, after the lockdown because of milk consumption and there were other challenges, the whole prices dropped from April, May, that decrease from our purchase rate would be about 15% to 18% lower, that has continued and that's really helping us but we had accumulated SMP looking at from a medium term perspective. So right now the milk prices stay at the same level as it had come down in quarter one and we are expecting next one to two quarters at the same level. After that it is anybody's guess there are both bullish and bearish, proponents we will not be able to really comment on that. But next one to two quarters, we believe the same prices will remain.

Shalini Gupta: Okay and sir Nutralite if you could just give a sense of kind if you could just speak about Nutralite Growth and because most of it is used in restaurants and hotels, where even though they haven't opened I'm not sure about the capacity that is being utilized there, because even though restaurants and hotels are open, I'm not sure how many people are going there?

Tarun Arora: So, Nutralite about 70% of our businesses is on food service and HoReCa, remaining 30 is on, more on 25% is closer to what we do of the retail, which is B2C. Now, the HoReCa business has been badly hit for obvious reasons and the impact was across all brands, this is the brand which has got the steepest hit in the lockdown what we've seen is April was the worst month every month has been better than that, but it is still to cover to the last year's numbers, we are hopeful by end of October, December quarter or maybe early January we should be touching our last year's number then hopefully build further on the growth. Having said this, this is still our plan and this is what we are seeing that with the change in prices of oil and which we'll have to pass it on to the customer there may be some other impacts which are hard to predict at this stage. The retail part has shown far more resilience unfortunately, retail part also has some good support on modern trade which has also been under pressure. So it's been a brand which is gone seem fairly a difficult phase but we are seeing good resilience of the brand and coming back, give us at least two, three months before we can which we are hoping that we'll be back to last year's numbers and start building growth from there on, on this brand.

Shalini Gupta: Okay. And sir your view on ad spend going forward?

Tarun Arora: Sorry?

Shalini Gupta: Advertisement expenses?

Tarun Arora: So, advertising we are focused on about 14% AtoS ratios that we typically operate it obviously varies from quarter-to-quarter. This is a time when we are also being very conscious of the fact that we have to be fair on our P&L requirements. We are also seeing some benefit of; we are putting the two entities together and negotiating better. So we are hoping we will also get some efficiency benefits also. So we stay on an analyzed level between 13.5% to 14%, it may change quarter-to-quarter depending upon the initiative as well as the intensity of the business.

Shalini Gupta: Sir my last question, when you look at the staff cost, it is 43 crores for the quarter, whereas it used to be, it was 53 crores for the first quarter. So, was there some kind of one off in the first quarter?

Umesh Parikh: First quarter there is an impact of annual increment variable pay, variable pay that we have paid out.

Tarun Arora: We've reclassified the first quarter because there were some other costs also taken.

Umesh Parikh: Now, it's been done though all the quarters.

Tarun Arora: Yes, now it's been done all the quarters. So, overall we've seen for first half, we've seen about 11.5% growth in employee costs and like Umesh explained, if you take out the actual costs, which are required for balancing the policies, etc. we are seeing about 5% to 6% kind of growth, despite the increments we've given to all the employees, so that's the more like number for employee cost.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs. Please go ahead. As there's no response, we take the next question from the line of Jaspreet Singh Arora from Equentis PMS. Please go ahead.

Jaspreet Singh Arora: Just if you could, you mentioned the number sorry I missed that, the GST budgetary support, what is the amount sir you mentioned for the quarter that's been absent now?

Umesh Parikh: It was 7 crores for the quarter.

Jaspreet Singh Arora: And for the full year sir how much was it for the last financial year?

Umesh Parikh: It was close to 32 crores.

Jaspreet Singh Arora: Okay, and sir just to understand this, how it's reflected in the annual reports, I couldn't get this. So, this is something you pay, and you get it back from the government or you did not pay it in the first place?

Umesh Parikh: We get it back from the government, it is reported as other operating income in the financial statement.

Jaspreet Singh Arora: In the other operating income?

Umesh Parikh: Yes.

Jaspreet Singh Arora: And the second question sir was in terms of the product category you mentioned Nutralite, towards the most hit because of 75:25 being the ratio in terms of the restaurant and then whatever out of home versus in home. I'm just trying to understand how the confidence is coming, because the restaurant and all those places still seem to be operating at sub optimal levels, even as we speak today. So, how are you, from where are you getting that numbers or the evidence that by December you should be back to the numbers pre COVID, if you could just elaborate more on that please?

Tarun Arora: We are relying on our internal trend that every month has been better and at the current trend level another three to four months, we should be back to the normal levels as last year. Of course, in the current environment it is hard to predict, but we are relying on the current last six months of results that gives our own performance we have seen, of course we know that the HoReCa will be continue to be hit, but we are also contributing to a value driven part of it, maybe we are able to leverage that.

Tarun Arora: And also that a lot of marginalized players have left the market which obviously helps when there are these issues and also with the right product mix that the team is targeting and with the critical variants that are very important in different segments, we are seeing some revival on that. So that will improve and definitely the retail side will also come up with some new additions overall Nutralite as we said, post December should start normalizing and gaining after that.

Jaspreet Singh Arora: Sure. And besides this, so this was obviously the one end and the other end was Sugar Free which you said did reasonably well. All the other product categories did you mention we are, you were about 80% to 90% levels, pre COVID. Is that what you broadly mentioned?

Tarun Arora: No, they are all growing.

Jaspreet Singh Arora: So they are growing means as we speak today, they would be more than what they were clocking in October last year?

Tarun Arora: That's right, actually other than Everyuth which, so we mentioned Everyuth became almost closer to parity towards the end of this quarter, and we are in some parts actually growing better but most of the brands have seen positive traction across them in terms of growth.

Jaspreet Singh Arora: Okay, then that's nice to hear.

Tarun Arora: The worst affected was Nutralite and this we have expected

Jaspreet Singh Arora: Sure. And how much would Nutralite be contributing sir to our revenues sorry I don't have that information?

Tarun Arora: We don't share product wise.

Jaspreet Singh Arora: Okay. Maybe not even a general mid-20s or it's less than one fourth, no color you would give on product breakup?

Tarun Arora: No.

Tarun Arora: It is not one of the large categories.

Jaspreet Singh Arora: It is one of the large categories that you have?

Tarun Arora: It is not one of the large.

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

Tejas Shah: First, I'll start with the strategic question. Sir the cornerstone of our strategy of integration was that the distribution footprint will double easily and in fact we are targeting somewhere around 5 lakhs direct reach by December 2020 and obviously, this was pre pandemic guidance. So where are we on that journey and why some of those synergies are not showing up in growth and margins yet?

Tarun Arora: So, first of all distribution, in my speech I mentioned, we're looking at March 21 to achieve our half a million target of number in that like because of the lockdown we had to delay this plan. So if we are well underway, we already at 3.5, we should be touching 0.5 million by March 2021 on the direct distribution expense. As far as the synergy benefits are there, there are three or four areas which we are working on, and which we see the whole numbers coming through. One is people cost, which we mentioned to you we have about 15% reduction in people. We also are without the actuarial cost if we look at just the actual cost of people, despite giving normal increases and routine expansions, the cost increase for the first six months is closer to about 5.5%, 6% and some of the benefits have also been accrued to us in earlier quarters as well. So we've been passing on some of those benefits as we go along. So that's one element.

Second is in terms of higher realizations, due to recalibration of trade margins, specifically trade partner margins. That has happened on account of, that is already there in our improved realization for across the brand portfolio that we have done. Umesh actually explained that there was a onetime reduction in trade margin last year around this quarter. So some of those benefits we have taken on board as we went along rather than accumulating and showing it one off. So, some of those benefits have already started reflecting. There is a further reduction in IT cost because there were two separate IT cost, two Separate IT infrastructures, which we've been able to reduce, we are also seeing value improvement in terms of our expire and breakage, very small, but these numbers have started adding up to our P&L and it shows up. Some impact of our mix which also comes up and typically quarter two and quarter three are the hardest to explain given the fact that the overall overhead ratio is much higher to the sales and that's when some of these gaps show up but at an annualized level we believe the entire numbers will publish.

Sharvil Patel: And I would still to add from Tarun's point of view also that, we are tracking much ahead in terms of our savings on the synergy, so that is on track and as he said rightly quarter two and three, these two quarters are obviously much lower than the quarter four and quarter one. If you will have to look at annualized level to see the overall value because there is a big difference between sales and profit between the fourth and first quarter and the second and third quarter. So, it gets highlighted more here, but overall, we are on a, we feel we will be well ahead of what we were planning.

Tejas Shah: Sure. Sir does it mean that our cost synergies are going as per plan but because of pandemic and low absorption because of lower revenue throughput, those numbers are not surfacing at margins level yet and going ahead you stick to your guideline or a guidance in some form that we will revert to 20% kind of margin as all those things normalizes in one or two years is that correct understanding?

Sharvil Patel: Yes, primarily you have to understand if you take the operational performance in terms of profit, we have grown in double digit in spite of still a single digit growth. So, that one of it is due to GST credit which will go away from next, which will not be in the base next year. The second is, we are continuously looking at network optimization, which will further add some value on the gross margin side and also the product mix which will help so we are confident that going forward, you will see good improvement in margin.

Tejas Shah: Sure. Another question on distribution expansion on growth. So how does this ratio work, so basically if I double my direct reach, it should show up in numbers also, or is it largely the fill rate and distribution efficiency which can't be measured on revenue directly. So how does that relationship work?

Tarun Arora: So direct distribution will work largely on improving the quality of distribution available, being able to reach out more products through that channel, because some of these outlets typically have some of our products already available through an indirect channel because overall availabilities closer to 2 million, my direct reach will go from 3.5 lakh to 5 lakh so it's not necessarily adding more products. Adding those un-serviced outlets, but less service outlets into the portfolio where we will be able to place the wider portfolio, service them better and improve our fill rates. And this gives us sustained growth and also a better performance on our A&Ps.

Tejas Shah: Sir, would it be fair assumption that when you reach 25% of your overall reach to direct distribution, revenue contribution of those outlets will be in vicinity of 40% or 50% and in ballpark numbers if can?

Tarun Arora: No, substantially more typically, most companies operate in an isolate modern trade e-commerce because they play a very different role within traditional trade distribution most companies operate 1:4 direct to total reach and about 60%, 65% sales coming from that. It depends, again it's brand-to-brand vary, because some of the larger brands have a much better presence through the indirect so it may happen brand-to-brand but it will be about 60% to 70% of our sales comes, will come from these and 25% of direct availability.

Tejas Shah: And as on today we will be at 3.5 lakh or?

Tarun Arora: 3.5 lakhs.

Tejas Shah: Sir another question.

Tarun Arora: Individually we used to be around 2.2, 2.3 we have come to 3.5 and soon hit the 5 lakhs.

Tejas Shah: Okay. And this addition of 1 lakh that we have done in the recent past are we seeing that delta on from those stores which we are actually hoping to get it when we reach 5 lakhs in terms of revenue throughput and fill efficiency and distribution efficiency?

Tarun Arora: Absolutely, across our portfolio we are seeing a good traction from, so even in our difficult phase we've seen especially last three, four, five months, we've seen these numbers, these are service levels of these outlets gone up. And these are contributing to our growth across the board we're seeing general trade responding better and we track them on a regular purchase level. We're seeing improved and good sales.

Sharvil Patel: Also, as Tarun was alluding to any new introduction it really helps so our last introduction on Everyuth, we have seen the best ever launch in terms of number of outlets reached in the shortest period of time. So adding all of those are those added benefits once you are improving your direct distribution.

Tejas Shah: Sure, definitely. And sir second question is on the Complan. So one of the strategy of our competitor which is already in public domain and documented also, that rural penetration is the way forward for the category and they also give this example that the categories under index two has some categories like even coffee, because actually the penetration is half in rural versus urban in the category. So, are we also following that path because it seems like low hanging fruit from strategy perspective and second, then the overall environment we are hearing that rural is actually doing better than urban across categories, are we seeing that kind of practice for the category level also?

Tarun Arora: So, one thing I can share within the general trade I mentioned 10% growth for our business, the super stockiest business which caters largely to rural and low pops strata in urban grew at 30%. So, we are actually leveraging very well for the rural availability. Now, specifically on Complan for us, there is a much bigger task of growing our brand and getting back brand on track, which we are seeing some benefit of, if we see a expansion in rural penetration for this category, we will certainly gain markets like high rural markets like UP, Bihar have seen good double digit growth of Complan and therefore, we will gain from those markets as well. Tamil Nadu, which is a relatively low rural market, has been under pressure. So, for us the priority is to get our brand distribution, brand proposition working from the consumer execution point of view. If they are able to expand the category in the rural due to our expanding distribution in the rural space, we will be able to leverage that as well. But I will not be the driver of category growth in those markets.

Tejas Shah: Fair enough. Sir lastly, you spoke about one modern trade chain in particular being under pressure. So, do we have any big outstanding to that chain

Umesh Parikh: No, not significant.

Tarun Arora: No, we don’t have any serious exposure.

Sharvil Patel: Overall, modern trade has been under pressure one particular you are right, but no major.

Moderator: Thank you. Ladies and gentlemen that was the last question. On behalf of Zydus Wellness Limited, that concludes this conference. We thank you all for joining us and you may now disconnect.